

JPRS-CAR-93-047

9 July 1993



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# ***JPRS Report***

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## **China**

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JPRS-CAR-93-047

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### Stockholder as Virtue Criticized

93CM0298A Beijing ZHENLI DE ZHUIQIU  
[PURSUIT OF TRUTH] in Chinese  
No 3, 11 Mar 93 pp 24-27

[Article by Song Xiren (1345 1585 0088): "Can 'Assets' Be Juxtaposed With the 'Four Virtues?'" ]

[Text] According to press reports, some enterprises are now calling for workers and staff members to become "workers and staff members with five virtues" and "new people with five virtues." The so-called "five virtues" are "ideal, morality, education, and discipline," known as the "four virtues," plus "assets." The "assets" here refers not to high income, expensive furniture, or private house property, but to workers and staff members buying stocks and becoming stockholders when an enterprise adopts the stock system. If this is just an advertising and publicity effort to encourage workers and staff members to buy shares and expand the stock market and capital source, it is all right. But to put "assets" on a par with the "four virtues" and regard it as a requirement for advanced workers and staff members, even as a "new concept" to be popularized—that is something that needs to be carefully thought over.

The question is not the number of "virtues," four, five, or six, but their substance and value guidance. As everybody knows, the "four virtues" were suggested to meet the requirements of socialist modernization, a call for the spiritual development of the Chinese people, especially the young people. At the end of 1980, Comrade Deng Xiaoping, in his instruction on strengthening ideological and political work, called for our youths to become people "with high ideals, moral integrity, knowledge, and physical strength" and to "cultivate the good habits of discipline, politeness, and protection of the public interest." In October 1983, he stressed that ideological and political work should inspire the people in the whole country to "strive hard to have really high ideals, moral integrity and culture, observe discipline, and fight heroically for the great and glorious cause of socialist modernization." In March 1985, Comrade Deng Xiaoping, in stressing the need to strengthening the building of a socialist spiritual civilization, further summarized these calls succinctly into "four virtues" namely, "ideals, morality, education, and discipline," which he has consistently advocated since. He also stressed repeatedly that among the "four virtues," the most important are "ideal and discipline." This is a comprehensive and scientific summary with Chinese cultural characteristics. In substance, it epitomizes the spiritual world, moral state, cultural quality, and ethical order of society as a whole and gives guidance to an individual's thinking, moral character, talent, and behavior. It is the quality and condition required of every person in the socialist modernization drive. Obviously property, corporeal or incorporeal, is not required here. "Assets" or stocks themselves cannot indicate or embody a person's mental state and moral character. Assets or stocks can be used as

a means to do either good or evil, and the difference is no doubt determined by people's mental state, moral character, and intention.

In his report to the 14th party congress, Comrade Jiang Zemin pointed out: "We should build a socialist spiritual civilization with 'ideal, morality, education, and discipline' as the goal." That is to say, the "four virtues" are requirements of a general and overall nature and should be promoted among the people of the whole country, especially the young people. The fundamental purpose is through education on the "four virtues" to strengthen people's patriotic, collectivist, and socialist spirit and to train builders of a modern socialist China with both ability and moral integrity. As to "assets" or "stocks," they are available only to some workers and staff members of enterprises which have adopted the share system and to some citizens in society. They are beyond the reach of the great majority of the people, let alone the young people. If "assets" is put on a par with the "four virtues," it not only confuses the nature of the spiritual civilization, but also improperly expands what is merely a special and partial requirement into a general and overall requirement. In the sense of "teaching the people to prosper," the fundamental spirit of the "four virtues" is to achieve common prosperity for the people of the whole country on the basis of accelerated modernization and economic development, and not for individuals to get rich and make fortunes. We encourage some people to get rich first through their own labor and by appropriate means, and the objective is still to stimulate and help others achieve faster and better results in building common prosperity. As the objective goal for building the spiritual civilization and the value guidance of ideological education, the "virtues" must not confuse the basic direction and objective of common prosperity. Otherwise, it is tantamount to letting things drift, which will inevitably lead to social polarization, and then socialist modernization and the building of a spiritual civilization will be out of the question. In fact, as incorporeal property in the hands of individuals, stocks can increase in value with the economic growth of the enterprises, and they can also depreciate when the enterprises suffer losses. The stockholders can even become broke when the enterprises go bankrupt. Not necessarily everyone with such "assets" will get rich.

In the course of developing a socialist market economy, the adoption of the stock system has its positive significance. It plays a positive role in spurring social and economic development with such activities as raising funds, absorbing consumption funds and turning them into production and construction capital, rational distribution of production factors, and optimum organization of resources, and so forth. However, the speculative nature in buying and selling stocks, especially the negative and destructive effect of vicious speculation, cannot be ignored.

At present, stock trading in China mainly takes the form of spot transactions. Generally speaking, in this kind of trading, the main objective of stock buyers is to earn



interest or dividend on the investment. However, even in this kind of stock trading, which is mostly for investment, speculation is still unavoidable. By "speculation" we mean activities to seize certain opportunities to make a huge profit for oneself. In fact, so long as stocks are sold and bought, people are bound to be induced to speculate, and speculation is unavoidable—even as Marx said, it will inevitably "produce a whole set of speculative and swindling activities" and become "exchange gambling." As to futures trading, an advanced form of stock trading, while stimulating the development of the stock market, it will also provide bigger opportunities for speculators. In the stock market, some people's sole purpose in buying and selling stocks is to make a profit from price fluctuations. If people are drawn into a vicious cycle of "higher and higher prices," and there are those who intentionally deceive potential buyers and make deals with them according to hearsay information, then vicious speculation may occur. This is extremely bad for the individual stockholders, the enterprises, the collectives, and the state. It shows that speculation in stocks is immoral. In building the socialist spiritual civilization, we should soberly recognize this phenomenon and resist speculation, especially the vicious speculative tendency. Therefore, the sweeping suggestion of "assets" as a virtue and the call on workers and staff members to become "workers and staff members with five virtues" can only be regarded as a confusion of the essence of things.

Of course, to resist speculation and especially vicious speculation is not to eliminate the stock system. That is unrealistic and cannot be done. We should make use of this economic means to serve the overall interest of developing a socialist market economy. From a macro-economic viewpoint, stockholders, in selling stocks of enterprises, whose profits are on the decline, and buying stocks of enterprises, which are more profitable and whose stocks are expected to rise in value, spur the rational allocation of production factors and social resources and contribute to economic development. Therefore, stock trading is objectively conducive to social and economic development and, from a long-term viewpoint, also in keeping with the fundamental interests of our socialist modernization. However, as far as the individual act is concerned, it is a typical example of the "subjectively for oneself and objectively for others" kind of reasonable egoism. Though such act is an "inevitable fact" (as Marx put it) or "unconscious inevitability" (as Hegel put it) in a commodity economy and market transactions, judging by its subjective "for oneself" motive and purpose, it is still as Hegel said "on the brink of doing evil" and may do either good or evil. Therefore, judging by the principle for moral evaluation that motive and result are one, it is obviously not suitable to promote "assets" as a virtue in an abstract and vague way, much less to regard it as a "new concept," juxtapose it with the "four virtues," and popularize it.

It can also be mentioned here that in the history of the civilization of either China or foreign countries, property

or assets have never been considered a factor in defining spiritual civilization, training talented people, or making demands on the quality of citizens in general. In ancient China, the Confucian traditional teaching that "morality is fundamental, and wealth incidental" did not mean that the people of that time did not value wealth and material benefit, but that the emphasis must be placed on the mind and heart in the spiritual and moral accomplishment of people. Therefore, Mencius emphasized that to be a great man, one must "adhere to the cardinal principles," that is, to establish the spirit of humanity and righteousness at heart and adhere to the principles of benevolence and justice, and must not "succumb to corporeal desires," that is, to yield to sensual temptations and become slaves of material desires. The Han Dynasty *Book of Loyalty* says: Those who govern must follow the will of the people; to "help the people prosper," it is necessary first to "inspire them with humanity and justice to strengthen their faith"; and at the same time it is necessary to "guide them with the rites," "educate them with moral principles," and "restrain them with the law" to achieve great social progress. This is experience that merits attention even today. In the age of the slave system in ancient Greece, property was certainly a decisive factor in people's social status, but even then property was not included in the rules of social decorum and personal conduct, and many thinkers and statesmen criticized the philistine viewpoint or theory which included wealth as a part of the spiritual civilization. Aristotle regarded a suitable amount of property as an external condition for personal well-being, but he always emphasized that a person's character lies not in his property, but in his intellect and good conduct and habit according to rational principles. He held that wealth is not the goal to be pursued in life, and it is only something useful, a means to achieve an end; and that only by using property for good purposes will people acquire the character of good and honest citizens. Even in the present age, though the wealth of the capitalist societies has grown tremendously, and assets in stocks have reached mind-boggling figures, bourgeois thinkers and sociologists do not regard the possession of assets as a requirement or criterion to be encouraged in enterprises or society. Why? Because they can see that money and property do not make a man; on the contrary, they can destroy a man. The well-known contemporary Western economist and author of the book *Individualism and Economic Order*, Friedrich A. Hayek, also sees that the extremely individualistic and egotistic behavior constantly growing on the hotbed of widespread individualism and egotism "has made people of good will feel despair in the possibility of achieving order in a free society." Such being the case, why should we, who are devoted to building a socialist spiritual civilization, creating a new type of socialist enterprises, and training successors and builders of the socialist cause, want to add "assets" to the "four virtues" criterion, which are clearly understood by the people of the whole country?

**Journal on Streamlining Government Functions**  
93CM0271A Beijing XUEXI YU YANJIU [STUDY  
AND RESEARCH] in Chinese No 7, 1 Apr 93 pp 8-9

[Article by Wu Shuzhi (2976 2885 1615): "Streamline the Administration and Change the Functions of Government"]

[Text] The 14th CPC National Congress formally set the task to streamline the administration and reform government organizations. In his report to the 14th Party Congress, Comrade Jiang Zemin pointed out: Reforming government organizations and streamlining the administration is an urgent task in reforming the political system, and an important condition for deepening the economic structural reform, building a socialist market economic system, and speeding up the modernization drive. To implement the guidelines of the 14th Party Congress, Premier Li Peng stated clearly in his "Report on the Work of the Government" to the First Session of the Eighth National People's Congress, "we should basically accomplish the task of reforming government organizations at all levels, with changing the functions of government as the key link, in three years' time."

**1. It is imperative to reform government organizations, streamline the administration, and increase efficiency.**

In the past few years, we have reformed central government organizations and conducted experiments on the reform of government organizations at the local and county levels. But, for a variety of reasons, though some changes have been made in organizations and signboards, the number of state administrative personnel has not only failed to become smaller, but has continued to grow. The personnel of some local party and government organizations has already exceeded the prereform 1982 level. It looks like another round of the streamlining-and-swelling cycle of government organizations that has occurred repeatedly since the founding of the People's Republic. In his "Report on the Work of the Government," Premier Li Peng pointed out: The major problems at present are the lack of distinction between government administration and enterprise management, irrational relations, overstaffing, and inefficiency. That is precisely how things stand. At present, the number of party and government organizations in our country is getting larger and larger; their staffs have repeatedly exceeded authorized limits; and their payrolls are getting bigger and bigger. Swelling government organizations, redundant personnel, rising administrative expenses, and heavy financial burden are not only seriously hampering economic development, but also causing graft, bribe-taking, extravagance, and other corrupt phenomena. According to statistics, there are more than 2,100 departments and bureaus under provincial-level party and government organizations in the country, averaging more than 70 in each province, autonomous region, and municipality, about 15 over the limit set by the central government organization department; and there are an average of more than 50 permanent party

and government organizations in each prefecture, 65 in each prefectural-level city, and 45 in each county, exceeding the authorized limits by about 20, 15, and 10 respectively. The total number of permanent party and government organizations at and above the county level in the country has exceeded the authorized limit by more than 30,000, and government-financed institutions and establishments now total more than 1.7 million. The desire to set up new organizations and hire more people is based on the belief that "more people can do more." In fact, this is not necessarily true. Sometimes more people can do less, nothing, or even something bad. The superfluous personnel often have nothing to do. They may even play politics, pass the buck, and make things difficult for others, and administrative efficiency can only suffer. Comparing with some developed countries, we must admit that we are not as efficient as they are. Although it may be argued that we do not have the same kind of modern office equipment as they do, our real problem is still overstaffing, with redundant personnel engaged in endless disputes, acting on a purely personal basis, paying no attention to efficiency, and even using their power to seek personal gain. If this problem of huge organizations, bloated with redundant personnel, wasting money and manpower, and engendering bureaucracy, is allowed to develop unchecked, not only will government efficiency be brought down further, but a degeneration of power may occur. For this reason, it was formally requested by the 14th Party Congress: Party committees and governments at all levels must unite in understanding and be determined to reform the present administrative system and party and government organizations according to the principles of separating government administration and enterprise management and of simplification, unity, and efficiency. This decision is very necessary and very correct. In his "Report on the Work of the Government," Premier Li Peng introduced a concrete plan for reforming the government organizations and called on the State Council and local governments at all levels to draw up implementation plans according to the principle of changing the functions of government, rationalizing relations, simplifying administration, and raising efficiency.

**2. The key to organizational reform and simplified administration is changing the functions of the administrative and management departments.**

In a certain sense, the changing of functions is an appropriate transfer and reasonable readjustment of powers and rights. Proceeding from the present realities and requirements, the outstanding issue that needs to be solved is to delegate an appropriate part of the overconcentrated power to the lower levels and to really give back to the enterprises the right to make their own operational decisions.

Whether it is conducive to developing the socialist productive forces, conducive to increasing the overall national strength of our socialist country, and conducive to improving the people's living standard—this is the criterion to examine whether any reform is successful,



and the criterion to judge whether the changing of the functions of administrative and management departments is effective. The economic structural reform and development of a socialist market economy have made changing the functions of the government imperative. It must be real change, which must meet the "three conducive" criterion, and not just empty words, postures, new tricks, slogans, and change in appearance but not in reality.

Under the present administrative system, the functions of government and enterprises have not been separated yet. Some government organizations are doing things they should not, cannot, and don't know how to do. The enterprises still feel that there are too many bosses, too many interferences, and too many demands for money. The functions of government organizations should be market-oriented, geared to the needs of the market, change the way of controlling the enterprises, and really embody the spirit that leadership means service. Otherwise, they may hinder the development of the productive forces. Experience has borne out that the more the government monopolizes the running of the enterprises, the more lifeless and inefficient the enterprises become. Only by acting truly according to the provisions of the "Enterprise Law" and the "Regulations on Changing the Management Mechanism of Enterprises" to enable the enterprises to make their own operational decisions and adjustments according to changes in market supply and demand and relying on policies, will the enterprises become more active and develop through market competition. For this reason, it is urgently necessary to streamline government organizations, simplify the examination and approval procedures, and raise administrative efficiency. First of all, the power that clearly belongs to the enterprises should be given to the enterprises without reluctance or reservation. While vigorously developing the socialist productive forces and the socialist market economy, we must be determined through the reform to change the old concept and old way of keeping the enterprises under the direct control of the administrative departments. The government administrative departments should shift the focus of direct control from the enterprises to the markets and concentrate on establishing, standardizing, cultivating, and serving the markets. For example, they can increase investment in market construction, pay attention to the training of management personnel, perfect laws and regulations on market management, maintain normal market order, protect fair market competition, bring into full play the government's organizational and driving role in building and perfecting a socialist market system, do a good job in macro control, relax micro control, and strengthen regulation and control under the guidance of the industrial policies. In this way, it is possible to streamline the unnecessary government administrative organizations, reduce the idle personnel, cut down the wasteful meetings and the wrangling and bickering documents, straighten out the relation between the upper

and lower levels and between the government and enterprises, and thereby in the course of changing the management mechanism of enterprises enable the government to really allow the state-owned enterprises, particularly the large and medium-sized enterprises, to freely and boldly enter the market and join the competition.

Of course, changing the functions of government is not doing away with administrative control or weakening necessary control. Rather it is changing the content and method of control, namely, changing from the past emphasis on micro control to strengthening macro control, and from the past administrative control to legal control according to general and specific policies. In this spirit, the current reform of State Council organizations is focused on strengthening the macro regulatory and supervisory departments and the social management functional departments. Some of the establishments and economic departments will be changed into trade management organs or economic entities.

In his "Report on the Work of the Government," Premier Li Peng stressed: Streamlining government organizations should be combined with improving the quality of government workers, and, in the process of the streamlining, proper arrangements should be made for the government workers, providing for them to work in different places. Some may go to the basic level to strengthen industrial and commercial administration, tax, public security, and other departments. Some may work for institutions or substantive companies. Still some can be encouraged to get out of government organizations and start a business in tertiary industry. All these are necessary measures and proper ways to streamline the administration. However, to prevent the problem of party and government organizations engaging in business, all personnel who want to engage in business or open a company must leave the party and government organizations, and their business activities must have no connection with any government control units and functional departments. The use of one's official power to do business, compete, or seek personal gain must be strictly forbidden. The use of power to run a company and make money in the name of changing the functions of government and companies established by the powerful and influential to "make money with and from public funds" or "take public funds and make themselves rich" are in essence all "official profiteering" in disguised forms and all misinterpreting changing the functions of government. At present, such misinterpretations have given rise to the so-called "company craze" and "business craze," which, it should be said, are normal in some cases and not normal in others. Some are a result of changing the functions of government, but some others are a shock, which are not in the interest of the reform, do not help in achieving the goals of the reform, and should be watched, prevented, and corrected.

The separation of personnel in the process of streamlining government organizations is a subtle ideological

and organizational work. The separation of personnel does not mean allowing them to drift as they please. The streamlining of government organizations and separation of personnel will inevitably require some people to stay and others to leave. The interests of the whole should be taken into consideration and proper arrangements should be made in determining who should stay and who should leave. Thus the stability of the necessary basic personnel of the government organizations can be maintained, and the people who are leaving will find the right place to put their talents to good use. Those who stay will fulfill their duties and do their work, and those who leave will explore new fields and start new careers. All can play a better role. Only in this way will it be possible to really streamline the administration, change the functions of government, and raise efficiency.

### Goals of Political Structural Reform Upheld

93CM0304A Beijing ZHENLI DE ZHUIQIU  
[PURSUIT OF TRUTH] in Chinese  
No 4, 11 Apr 93 pp 21-24

[Article by Liao He (1675 7729): "Uphold the Goals of Political Structural Reform of China"]

[Text] In accordance with Comrade Deng Xiaoping's theory of building Chinese-style socialism, Comrade Jiang Zemin made unequivocal and scientific stipulations and explanations regarding the goal of the political structural reform of China. With the improvement of the people's congress system and the multiparty cooperation and political consultation system led by the Communist Party as the main contents and in accordance with the requirement of combining democracy and legal system, the goal is to vigorously carry out the political structural reform, establish and develop socialist democratic politics, and never adopt the multiparty and parliamentary systems of the West.

Whether or not to uphold this goal of the political structural reform of China is of great immediate significance not only to the construction of a socialist democratic political system but also to the economic structural reform aimed to establish a socialist market economy.

There seems to be little dispute over the issue of the goal of political structural reform. But the fact is that there are different views on this issue. For instance, one view holds that China's political structural reform has not made any significant progress in the past 10 years or so. In other words, it has been "marching in place." After the political disturbance in 1989, there was even some "regression" and "each step was difficult" in the reform. Based on this view, a conclusion has been reached: China's reform is a "one-legged reform" which carries out only the economic structural reform but not the political structural reform. Another view holds that reform and improvement are two concepts of different connotations which cannot be mentioned in the same breath. Reform and revolution both mean fundamental changes. The only difference is that reform is carried out

through nonviolent, progressive, and legal methods. Improvement on the other hand means revising and repairing, not fundamentally changing, a certain system. Because of this, the theory of improvement is nothing but a "metaphysical illusion." Although those holding these views did not clarify what exactly they believe is the goal of political structural reform, they in fact have a hidden goal of reform, and it is based on this goal that they assess China's political structural reform in one way or another. People with different goals of reform will come up with different appraisals of the current situation of reform. Their understanding of the relationship between reform and improvement will also differ as a result. Setting the goal of reform concerns the direction of political structural reform, which must not be ambiguous or vague.

The goal of China's political structural reform set forth by the 14th Party Congress is very clear, that is to establish and develop Chinese-style socialist democratic politics. The main content of reform is also very clear, that is to further improve the people's congress system and the multiparty cooperation and political consultation system led by the Communist Party. Of course, this is only the main content, not all the contents of reform. The reform also includes reforms in the areas of leadership, administrative and management, and democratic supervision mechanisms. The goal and main content of reform set forth by the 14th Party Congress are suitable for the national conditions of China and completely correct.

We all know that democracy is the intrinsic quality and requirement of socialism. The key content of Chinese-style socialist democratic politics is to allow the people to be their own master and to build and manage their own country under the leadership of the Communist Party. Democracy and the right to be one's own master are exactly what the broad masses of people fought for in bloody battles under the leadership of our party before the liberation. The founding of new China fulfilled the long-cherished wish of the people and ushered in a new era of Chinese history.

The people's congress system is the fundamental system of Chinese-style socialist democratic politics, and multiparty cooperation and political consultation system led by the Communist Party are the basic system of democratic politics of China. These two systems are conducive to the people being their own master, participating in politics, managing the country. They are the advantage and strong point of our politics. Because of this, we must consider upholding and improving these two systems as the main content when carrying out reform to promote what is beneficial and abolish what is harmful. At the same time we should make efforts to carry out reforms of other democratic systems and to build and develop socialist democratic politics. If we use such a goal of reform to judge and evaluate China's political structural reform, we will be fully justified to say that since the Third Plenary Session of the 11th CPC Central Committee, after we resolutely corrected our mistakes, we



have made gratifying achievements in democratic political construction. Democratic and legal systems have made marked progress. A socialist legal system based on the constitution has taken shape. The lawless situation has changed substantially. All areas of society have been gradually included into the sound course of democratic and legal systems. The legislative and supervisory functions of the people's congress and the functions of multiparty cooperation, political consultation, and democratic supervision led by the Communist Party have also been strengthened substantially. We have made major breakthroughs and substantial changes in the highly-centralized leadership system which confuses party and government functions and mixes government and enterprise responsibilities. We have abolished cadres' lifelong leading position system which had in fact existed. We have changed the rural people's commune system which integrates government and communal functions and made further progress in urban and rural grassroots democratic construction, etc. There is no doubt that China's political system has room for further improvement, but an undeniable fact is that we have indeed made an important step in the political structural reform and that we have indeed made important progress in socialist democratic political construction. It is totally groundless to say that China's reform is a "one-legged reform" and that China's political structural reform "is marching in place."

In fact, the conclusion of "one-legged reform" and "marching in place" is reached when another model of reform goal is used as the criterion for judging the reform. Those who believe in the "one-legged reform" think that socialist China is actually exercising a centralized and autocratic rule as long as it is under the leadership of the Communist Party. Because of this they propose that we need to "protect human rights" and use the method of "peaceful transition" to gain the so-called "democracy." The goal of reform hidden in this view is actually one that seeks to adopt the multiparty and parliamentary systems of the West. Using such a reform goal to judge the reform, it is only natural for them to come to the conclusion that the reform is "marching in place" and "cannot move one step without difficulties." It is only obvious to them that "democracy and freedom" have "gone backward" when compared to the time when bourgeois liberalization was rampant a few years ago. We did not say this because we thought this is the way it happened. Those who believe in the "one-legged reform" theory clearly stated: We failed and hesitated to carry out the political structural reform because we were subject to serious interference of anti-bourgeois liberalization and because the "democratic activities carried out by the masses of the people within the scope of the constitution were considered as riots" (referring to the 1989 political disturbance). Because of this, the goal of reform in the minds of those who believe in the "one-legged reform" theory is very clear. Only rampant bourgeois liberalization fits what they called "democratic politics."

The "one-legged reform" and the "marching in place" theories are not only contrary to reality but also unclear logically. According to the Marxist principle that politics and economics are interrelated, the carrying out and deepening of the economic structural reform will inevitably demand corresponding reform in the political system, whereas the carrying out and gradual development of the political structural reform serve as the prerequisite and guarantee for the smooth progress and final success of the economic structural reform. Just like Comrade Deng Xiaoping pointed out: Along with the development of the economic structural reform, "what is important is that the political system does not meet the requirements of the economic structural reform. This is why without carrying out the political structural reform, it will be impossible to guarantee the results of the economic structural reform and continue to push the economic structural reform forward." (*Building Chinese-Style Socialism*, the revised and enlarged edition, page 138). China's reform, of course, has focal points, and steps for actual implementation also have an order of priority. However, generally speaking, economic and political structural reforms supplement and complement each other. Since our party is centered on economic construction and considers the development of productive force as its basic task, it is only natural for our party to focus on the economic structural reform. Proceeding from the reality of China, our party first carried out rural reform and then expanded to urban reform. It started with the economic structural reform and then developed to the across-the-board comprehensive reform that includes political and cultural spheres. The historical progress of this reform is in total compliance with the reality of China, but the reforms of different areas are not clearly separated. For instance, the rural economic structural reform of China, which is centered on the household output-related contract responsibility system, is accompanied by the reform of the political system of rural people's communes that combines government and commune functions. The reform of state-owned enterprises is accompanied by the political structural reform that separates government and enterprise responsibilities, simplifies government organizations, and decentralizes power. The economic structural reform aimed to build a socialist market economy demands simultaneous reforms in administrative and management systems and organizations that change government functions. Had it not been for these "accompanied" reforms that belong in the area of political structural reform, how could it be possible for the gradual deepening and major development of the economic structural reform! How could we have today's encouraging situation in the reform! Those who believe in the "one-legged reform" theory admit that the situation in China's economic structural reform is excellent while accusing the reform of "marching in place" and not carrying out the political structural reform. This is illogical.

By affirming the achievements and progress of the political structural reform, we do not deny that it is still incompatible with the economic structural reform in



many aspects, still less do we indicate that there is no need for us to vigorously promote the political structural reform. The important issue here is: What kind of reform goal exactly should we use to judge and interpret the current situation of the political structural reform in China, and what exactly is the reform goal that can be considered as vigorously carrying out the socialist political structural reform of China?

The implications and interrelations of the two concepts of reform and improvement also involve the issue of reform goal. In socialist countries, reform means readjusting, under the prerequisite of upholding the socialist system, those productive relations and systems which are no longer suitable for the development of social productive forces and those superstructures and systems which are no longer suitable for the economic basis. This is to make them meet the requirements of the development of social productive forces and the economic basis. Improvement means, promoting what is beneficial and abolishing what is harmful under the prerequisite of upholding the socialist system and through carrying out the reform of specific systems. This is to make the socialist basic systems more mature and complete as each day goes by, to better accelerate the development of productive forces and all-round progress of society, and to enable the advantages of the socialist system to be more fully demonstrated and displayed. This is the general goal of our reform. In this sense, reform is the means and improvement is the end. Because of this, we say that reform is the self-improvement of the socialist system. Our reform does not involve the issue of carrying out fundamental changes in the current socialist system.

In addition, the opinions of those who believe in the "one-legged reform" theory are directed clearly against the goal of the political structural reform. As mentioned above, our party clearly stipulated that the goal of the political structural reform is to build and develop socialist democratic politics while considering the improvement of the people's congress system and multiparty cooperation and political consultative systems led by the Communist Party as the major contents. If improvement is not reform, reform has to carry out fundamental changes. Then the only logical conclusion of this view would be: The goal of the political structural reform stipulated by the CPC Central Committee cannot be considered as reform and the improvement of the abovementioned two systems cannot be considered as reform either. Then what is the major content of building and developing socialist democratic politics? In short, the only answer is their hidden political reform goal analyzed above. This is the crux and essence of the issue.

It is necessary to clarify that general and abstract suggestions of fundamental change on the issue of the political structural reform is inappropriate. We know that the people's congress system and the multiparty cooperation and political consultative systems led by the party are great inventions made by the Chinese people under the leadership of our party. They are the socialist political

system which is totally different from the multiparty and the parliament systems of the West and which suits the national conditions of China. It not only embodies the intrinsic quality of socialist democratic politics but also has Chinese characteristics. Such an excellent system cannot be, nor does it need to be, fundamentally changed. It can only be built on, improved, and developed. By considering the improvement of these two systems as its major contents, the political structural reform has mastered the basics and direction, thus making it possible to smoothly achieve the goal of building Chinese-style socialist democratic politics. Of course, these two systems still have many imperfections. Improvements need to be made through reform in many concrete democratic systems surrounding these two systems, such as scientific procedures for making democratic policy decisions, the supervising mechanism, the democratization of grassroots, election, administration and management, and legal systems. The task of the political structural reform is arduous and urgent. It demands that we make great efforts to carry it out conscientiously. But this is different from calling our political structural reform "marching in place" and an "one-legged reform." No matter what others say at home and abroad, we should uphold the goal and model of the political structural reform set forth by our party.

#### **Warning Sounded on Dangers of Foreign Influence**

93CM0318A Beijing RENMIN RIBAO in Chinese  
3 May 93 p 5

[Article by Song Xiren (1345 1585 0088): "On 'Changing Empty to Solid, Changing Soft to Hard'"]

[Text] At the National Forum of Propaganda Department Directors, Comrade Jiang Zemin emphatically pointed out that we must make propaganda and ideological work a great construction undertaking, make it a piece of systems engineering, so as "to change the empty to the solid, to change the soft to the hard." These words address the crucial points of propaganda and ideological work.

Propaganda and ideological work is a great undertaking in the building of a socialist spiritual civilization, and is an important aspect in modernization. For several years, following the swift development of economic construction and material civilization, propaganda and ideological work has been gradually strengthened on an actual material basis. At the same time, benefiting from Comrade Deng Xiaoping's guidance on building socialism with distinctive Chinese features and the inspiration of the 14th Party Congress, we now are faced with an extremely good opportunity.

However, it should also be seen that on this front there still exists a state of affairs that is empty not solid, soft not hard. In society the ideological trends of ultra-individualism, egoism, and money worship have developed. Some press articles say that the principle of collectivism in socialist morality is "totalitarianism,"

and regard the socialist market economy as a place for achieving "freedom and equality" and a "paradise" for the Benthamite egotist. One of our youth education publications publicizes Mannheim's sociological theory of "non-ideologicalization," and without differentiation says that ideology is "the static view of the ruling class, proceeding from its own interests, to mask social reality." It sees "non-ideologicalization" as "rational progress" and the "spirit of seeking truth." Thus it completely misinterprets the spirit of "emancipating the mind and seeking truth from facts."

Of course, in the practice of socialist modernization, we must not become entangled in ideological disputes and let slip the golden opportunity in reform and opening up to the outside world and in developing the economy. We must not, because of differences in ideology and social system, refuse to assimilate the worthwhile results of capitalist civilization. However, at the same time we should distinguish right from wrong, good from evil, and uphold the guidance of socialist values. In propaganda and ideological work, we should advocate something, persist in something, and oppose something; our consciousness of carrying forward something and restricting something, on questions of principle, must not be ambiguous but must be clear-cut.

It should be seen that in actual life there are all sorts and kinds of "empty" and also all sorts and kinds of "solid." The various kinds of "empty," in their own way, strive to change into the "solid." Herein there is also obedience to the law of competition, and there is not just harmony. Through competition antagonistic things are able to achieve unity and harmony, and this dialectic cannot be violated.

Changing propaganda and ideological work from empty to solid, from soft to hard is a process, is a piece of systems engineering. It must go through a long period of arduous effort involving all aspects of work. Herein theory building and educational work are very important. We must uphold Marxism, uphold the theory of socialism with distinctive Chinese features. A correct theory is the theoretical basis for all principles and standards, is the guide for the thought and action of millions upon millions of people. Without correct theory there is no correct practice. This proposition is true for revolution and is true for modernization. Mistakes in theory, particular mistakes in fundamental theory of a guiding nature, will cause major faults in practice, and even cause mistakes of a historic nature. The lessons in this respect remain fresh in people's memory. Therefore, in the building of spiritual civilization we cannot ignore the building of theory, and we must further strengthen the building of theory. In the practice of building socialism with distinctive Chinese features, we must constantly sum up experiences, summarize theory, and uphold and develop Marxism and all the social sciences (of course, we must also develop the natural sciences) in order to guide the healthy development of the cause of socialist modernization.

Education is the crucial link in changing propaganda and ideological work from empty to solid. Through effective education we will be able to turn into the people's strength of thought, faith, and will, and will make people become "four haves" new people in achieving socialist modernization, thereby truly attaining the magnificent goals of the 14th Party Congress' program for building socialism with distinctive Chinese features. In this link, school education is important; but in the modern information society the measures, modes, and channels of education are highly varied and complex, and the content and effect of school education are limited. Therefore, we must pay attention to other kinds of social education besides school education and to guidance on propaganda's value. Otherwise, a commercial advertisement makes propaganda aimed at normal human feelings and selfishness, and it will shake or offset the moral education that some people have received in several school terms. People will not forget, nor should they forget, that the policymaker of a certain Western power once said: Provided the youth of socialist countries are allowed to sing our songs, the outlook on value of an entire generation can be changed. Don't some youths say: "No matter whether he is Westernized or Confucianized, provided I am interested he will do?" I think we should not just make this outlook on value something that a youth would say at will, but should see the widespread influence that a mistaken outlook on value has, and thus consciously strengthen our sense of responsibility and sense of mission, and do good propaganda and ideological work.

As a piece of systems engineering, "changing the empty to the solid, changing the soft to the hard" involves work in many aspects and their mutual coordination, and is a matter of politics, law, system, as well as ethics and morals. When Ma Rong of the Eastern Han in his *Zhong Jing* [*The Book of Loyalty*] discussed "educating people to create wealth," he proposed four measures: "sincerity," "guidance," "propagation," and "clarify." "Sincerity" means "being sincere with virtue" toward the masses of people by strengthening moral education; "guidance" means "providing guidance with rites" to strengthen the systems and rites that standardize people's behavior and relationships; "propagation" means "propagating the leaders' virtues," which can be understood today as the widespread publicizing of the party's and state's theory, line, principles and policies; and "clarify" means "clarifying the laws of the land" by strengthening the building and implementation of laws. The comprehensive effect in these four aspects was "solidify the people's minds," "harmonize the people's spirit," "make the grand gesture," and "clarify the laws of the land." Ma Rong gave this advice to a feudal ruler, but in it are things of permanent applicability that can be used for reference. Today, in the process of developing the socialist market economy and of educating the people to create wealth, we should also, with the theory of socialism with distinctive Chinese features as our guide, build our own systems engineering for propaganda and ideological work.

## NATIONAL AFFAIRS, POLICY

### Thumbnail Sketch of Economic Reform Results

93CE0507A Beijing ZHONGGUO JINGJI TIZHI  
GAIGE [CHINA'S ECONOMIC STRUCTURE  
REFORM] in Chinese No 4, 23 Apr 93 p 59

[Article by a staff reporter: "Important Advances Were Made in China's Reform and Opening to the Outside World During Last Year"]

[Text] It was clearly enunciated at the Fourteenth CPC Congress that the goal of our country's economic structural reform was to establish a system of socialist market economy. This fact indicated that China's efforts to reform the economic system and to open up to the outside world had entered a new historical stage. In 1992, the following important advances were made in the process of reform and opening up in China:

- Three structural reforms were being carried out in over 60,000 trial-point enterprises, involving over 30 million employees.
- There were over 3,700 joint-stock enterprises (of which about 400 were given approval last year).
- Sixty-nine enterprises were listed on the stock markets in Shanghai and Shenzhen.
- The people's courts at various levels (from January through October) heard 346 cases of enterprise bankruptcy (104 cases involved state-owned enterprises), and closed 146 cases, resulting in the bankruptcies of 45 state-owned enterprises.
- The industrial added value created by the state-owned enterprises increased by 14.4 percent over the preceding year.
- The industrial added value created by the collectively owned enterprises increased by 28.5 percent over the preceding year.
- The industrial added value created by the foreign-financed enterprises increased by 48.8 percent over the preceding year.
- The value of output of the township enterprises reached 1,650 billion yuan, an increase of 40 percent over the preceding year.
- There were 139,000 private enterprises, with 22.12 billion yuan in registered capital.
- There were 15.339 million individual business operators, owning assets worth 60.1 billion yuan, and employing 24.677 million people.
- Grain prices were no longer controlled in 844 counties (cities).
- The number of items of means of production and transportation under the state's price control was reduced to 89 from 737 at the end of 1991.
- Less than 15 percent of the agricultural products purchased by the state was purchased at state-set prices.
- Only 10 percent of the retail sales of industrial consumer goods was carried out at state-set prices.
- Only 30 percent of the producer-price sales of means of production was carried out at state-set prices.
- There were 76,000 trading markets (over 7,500 of those markets were relatively standard ones, and over 100 of those markets each generated a total volume of transaction amounting to over 100 million yuan).
- Various bonds and stocks worth over 300 billion yuan were issued; this sum represented an increase of 120 billion yuan over the preceding year.
- The share of industrial activities governed by mandatory plans was reduced to 16.2 percent (only less than 10 percent was governed by the plans of the Planning Commission).
- Nine regions served as trial points for the experiment of the separate taxation system.
- In the first nine months 300,000 people were provided with job-waiting benefits.
- Old-age insurance was governed by provincial-level planning in 11 provinces and municipalities.
- Over 85 million employees and over 17 million retirees were covered by old-age insurance governed by society-wide planning. Collective enterprises were covered by overall planning in over 1,400 cities and counties.
- The total volume of transaction of the technological markets reached 15.08 billion yuan, an increase of 59.1 percent over the preceding year.
- The number of industrial development zones for high and new technologies reached 52, an increase of 25 over the preceding year.
- Three hundred fifty counties served as trial points for the experiment of comprehensive reforms.
- Nonagricultural sectors grew by 37 percent over the preceding year, and their share of the rural economy increased from 57.1 percent in the preceding year to 64.1 percent.
- Newly approved open cities: five cities in the coastal regions; 13 cities in the frontier regions; 18 provincial capitals.



## PROVINCIAL

### Liaoning Policy Research Office Analyzes Product Marketing

93CE0439A Shenyang LIAONING RIBAO in Chinese  
10 Mar 93 p 1

[Article by the Liaoning Policy Research Office: "Concerning the Selection of a Major Advertising Strategy; Survey and Recommendations on the Current Status of Marketing Liaoning's Local Products"]

[Text] Editor's note: This article provides a full and complete argument that Liaoning's enterprises are in a defensive and inferior position when it comes to marketing their products. It analyzes the critical reasons for this situation, and from a large-scale survey offers some suggestions for dealing with it. The sincere hope is that relevant departments will give their fullest attention to the problem, and that all levels of government and the enterprises will work together on this matter, to further the sales of Liaoning products. [end editors note]

#### Review of the Current Status of Local Product Marketing in Liaoning

Along with the emergence of a surging product economy, another major trend has been an abrupt rise in product marketing competition. Statistics show that in 1992, a total of 230 million yuan was spent on marketing throughout the province, a 50 percent increase over the previous year, and four times again that of 1988. More than 80 Liaoning enterprises invested in excess of one million yuan in marketing, and three of these spent in excess 10 million. It is particularly worth noting that while marketing attracts sales, sales determine how competitive a product is in the market. Some farsighted Liaoning enterprises have taken the lead in assaulting the market from north to south, taken up their marketing weapons, and captured their market share, a paean of triumph. The Benxi No. 3 Pharmaceutical Plant was founded 12 years ago, and has more than 10 years' history of marketing their products. They have gone the road of furthering their sales through marketing, and through better sales furthering their development, becoming a true standout in the nation's pharmaceutical industry. This is directly relevant to product quality, but also to a fairly large degree is the result of the influence of marketing psychology. The village-operated Shenyang Household Appliances Plant, with their own funds and starting from scratch, had only 200,000 yuan in sales during the first period the plant was in operation, with profits of less than 20,000 yuan. In the past few years, at the same time the company was emphasizing product quality, it continuously increased the marketing of its chief products, with advertising expenses increasing from 300,000 yuan to 1 million yuan last year. Last year's sales volume reached 30 million yuan, and profits of 8 million yuan. With a per capita profit of nearly 30,000 yuan, the enterprise becoming a small-scale colossus in reality as well as in name. The Shenyang

Flying Dragon Health Care Corporation emphasized a marketing strategy during the initial period of its operations, and has now become one of the very few big advertisers. Last year, this company invested more than 12 million yuan in advertising, while the output value created was 130 million yuan, so the advertising investment was 10 percent of the output value. The Northeast Pharmaceutical Plant invested more than 10 million yuan in advertising last year. At present, while there are still only a few enterprises of this type, they perform a very strong function by their example and momentum. Plant advertising to boost sales acts as a mechanism, producing a very strong assault on the enterprises' internal and external departments, and having a positive effect and influence on the enterprises' production and sales styles.

However, in looking at the whole picture, the product marketing effort in Liaoning is at the initial phase, and in an increasingly competitive market, especially one in which marketing is a weapon in the advertising wars, Liaoning's is very unsatisfactory. It has become an important factor restricting Liaoning's economic development, especially the merchandising of goods manufactured for household use, such as light textiles.

The problems are most noticeable in the following several "lacks":

First, the lack of investment in product marketing. Last year, Liaoning's gross product output was 129.5 billion yuan, with 0.2 percent of that total invested in advertising. Of that, approximately 90 million yuan went for marketing Liaoning-produced goods, an average of 2.2 yuan per capita. Moreover, a total of 6.7 billion yuan was spent nationally on advertising last year, which was 0.28 percent of the GNP, an expenditure of 6 yuan per capita. Liaoning's marketing investment, regardless of what portion it is of the province's total output value, is still on a per capita basis far lower than the national average. This is very unsuitable for Liaoning, a major industrial province with strong production forces. In marketing, only 35 percent is expended on goods produced in Liaoning, and nearly 65 percent on advertising outside brands. Along with this, outside products have been flooding into the Liaoning market. The consequence of these outside brands occupying such a position in Liaoning advertising is that they now dominate our market. Some characteristics of this flood of outside brands are: marketing-intensive promotion-large sales-more advertising-more sales. According to Ministry of Commerce statistics, at the present time, only about 20 percent of the household industrial products in Liaoning are made here, as are only 16 percent of the products which converge in Shenyang's Wuai market, while locally produced goods' share of the Liaoning market is decreasing by the day. Although there are problems with the quality and variety of goods produced here, still, a very important reason for all this is Liaoning's steady retreat in the advertising wars.

Second, there is a lack of enterprises which have the initiative to market their own products. According to

representative survey figures, every year fewer than 15 percent of Liaoning's enterprises engage in marketing, and 85 percent of the industrial enterprises pay no attention to advertising their products. Of Shenyang's industrial enterprises: approximately 20 percent engage in marketing, the highest proportion in the province, with many cities still not reaching this proportion. For some cities the figure is only 0.3 percent. In contrast, in some southern coastal provinces such as Guangzhou, Fujian, and Zhejiang, more than 90 percent of the enterprises advertise their products, and product marketing has become an integral part of the operational activities of the enterprises in these places. In Liaoning, some enterprises do no product marketing, so some superior products "are still unknown to the boudoir." Besides doing nothing to open up sales routes, some even running their course, and lose all opportunities for expansion. For example: several years ago, in a certain city, a light bulb plant developed an energy-saving bulb. It provided a brighter light than bulbs of the same class of power, while using less energy, saving 10 percent on electricity: a 15 watt bulb produced as much light as a commonly used 60 watt bulb, and after 1000 hours of use still used 5 percent less electricity, equivalent to having another bulb for free. But in the end, because they did not advertise the bulb, no one knew of it. There are many similar examples of this sort of infant self-suffocation.

Third, there is a lack of publicity concerning competitive strength. Some Liaoning enterprises have tried to publicize their own products, but are reluctant to make the appropriate investment. They are also inferior at long-term publicity; this is another shortcoming where publicizing of Liaoning local products is concerned. In general, enterprises in developed nations invest about 20 percent of their total output value in advertising, while at the present in China there are a few enterprises investing about 12 percent. Such enterprises as the Jianlibao Group in Guangdong, the Shenzhen Southern Pharmaceutical Plant, the Tianjin Sino-American Shike [phonetic], and the Xian Yangsen Pharmaceutical Group have displayed obviously strong advertising competition, and their products hold a sizable share of the market. During the 1990 Asian Games, the Shenzhen Southern Pharmaceutical Plant made a one-time investment of 6.8 million yuan in advertising their 39 Stomach Soother. Their product's sales became widespread, and universally famous. To date, Liaoning does not have even one enterprise taking this kind of approach. Many enterprise always look upon advertising as an expedient method, ignoring it when production and sales are climbing, and usually thinking of it only when there is no other alternative. At such times, their financial resources are insufficient, and they lack developmental strength. Their advertising publicity lacks staying power, and is not of much use. The toothpaste market is the most convincing example of fierce competition. The Liuzhou Household Chemical Plant was a small collective plant, but their products upon entering the market were assisted by their very long lasting "Liangmianzhen Toothpaste" advertising offensive. They quickly opened

up and occupied the national market, leaping from a small unfamiliar plant to one that dominated their industry. Last year they invested more than 10 million yuan in advertising, and sold over 400 million tubes of "Liangmianzhen Toothpaste." It is now the most widely used medicinal toothpaste in China. Liaoning's high-quality "Kangchiling" toothpaste sold well in the market during the 1980's, but due to a lack of governmental concern and leadership, the enterprise's publicity to promote sales fell behind. The annual advertising investment never reached one million yuan, so the product's reputation faded from people's memory under the onslaught of many competitors' advertisements. With sales last year of only 50 million tubes, "Kangchiling" toothpaste has fallen from fifth place nationally to 14th. Shenyang Red Plum MSG was assaulted by Henan Zhoukou Lotus MSG, and Zhongle Xiangshuyi Noodles were supplanted by Huafeng Sanxianyi Noodles, in each instance the direct result of their lack of strong publicity.

Fourth, there is a lack of enthusiasm for publicity in the scramble for markets. A survey has determined that while there is a significant amount of investment in publicity by Liaoning enterprises, still, the majority of them like to be judged by the executive branch, in hopes of winning the ministerial medal and provincial medal. They have the misconception that their products will derive ten times the benefits from receiving awards of that sort. Meanwhile, they invest very little in advertising. Two years ago, the provincial government invested 10 million yuan earmarked for enterprise advertising, but most of the latter were not enthusiastic about this. Some enterprises with very bad bureaucratic habits just wait for business to come to them. For example, in 1986, the No. 1 rubber factory in certain city imported a full set of Japanese equipment and developed out the "san yuan yi ben water preventional rubber roll material," of international standard, capable of replacing similar imported products, and with an annual production capacity of 1 million square meters. In the more than five years since they made their investment and went into production, they have done no market advertising, so this fine product is virtually unknown. What they had sold was less than one year's production capability. At the same time, the nation continues to import the same products to fulfill our market needs, at a cost of \$10 million annually.

Fifth, there is a lack of places where advertising publicity has any momentum. The rate at which advertising develops can be representative of the development of an area's commodity economy. When it comes to developing new industries, most areas in Liaoning province are still on the first step, while the level of development is unbalanced. Last year, of the total of 280 million yuan invested on advertising in the entire province, 205 million came from Shenyang and Dalian; some 80 percent of the total. Moreover, the entire advertising industry income from 12 other cities was less than 80 million yuan, an average of less than 6 million yuan each, and less than 2 million yuan in some. Last year, there



were 305 advertising firms in Sheng Yang, with a combined income of 120 million yuan, twice that of the year before. This put it in first place in Liaoning, but it was still less than a television station's income in such places as Beijing, Shanghai, or Guangdong. It shows that Liaoning should develop its publicity industry further.

#### **Analysis of the Important Restrictions on Publicity of Local Products**

First, the enterprise management system is inactive, lacking internal pressure. Enterprises skimp on investing in publicizing their own products. This depends on the enterprises' attitude to the market to a great degree. According to reports from the news media, most Liaoning enterprises are not interested in market publicity, and they don't look upon market publicity as an essential part of the enterprise management system. This is explained by the fact that our enterprises still have a fairly long way to go when it comes to competing in the market, nor are they yet on the route to a commodity economy. The reasons for this are: first, excessive governmental intervention with sales activities, too many societal rules restricting the means of publicity, which results in considerable opposition. For example, one city formally banned the erection of commercial neon signs in the downtown area. This was a case of direct intervention by city government departments to stop commercial advertising in such places as the railway station and the telephone and telegraph building. It severely suppressed the development of local commercial advertising. Second is the enterprises' reliance on government: whether an operation is good or bad is never determined by its value in the market, but rather by the degree of governmental support and preferential treatment. Many enterprises seek the mayor, not the market. So they naturally do not see publicity as an important means of operation. For example, the knitting and weaving trade in a certain city has high quality, reputable products which were always welcomed by consumers. But in recent years, its enterprises have stressed obtaining the support of government organizations for their manufactures, so there was no pressure or sense of danger as an impetus to market competition. Without an emphasis on product publicity and sales competition promotions, their market share went into an obvious decline, falling to only 7 percent and 4 percent of their local market for that class of products.

Second, the enterprise contract system is counter-reactive, restricting investment in advertising publicity. In the current three or five year contract method, it is easy to induce short term actions. The idea of "living only for the present" plays a fairly dominant role in the actions of contracting parties. This kind of counter-reaction by contractors is obviously counter-reactive to the operations of advertising and publicity. The benefits from publicizing products arrive rather slowly, sometimes the cycle is fairly long, and advertising payments can have a negative affect on the interest and tax rates on a contractor's income, since advertising competition requires a long term commitment to be effective. To

counter this phenomenon, some contractors are reluctant to invest in advertising, even believing that they cannot earn anything from what they themselves might pay out, with subsequent contractors deriving all the advertising benefits. They feel that if they do so, they are "working for others," so are are reluctant to make the investment.

Third, governmental coordinating support is weak, so it is very difficult to publicize local products. Some central managing departments are not too familiar with the sales promotional situation of their own industries' products, emphasizing production and slighting distribution. Many leading comrades basically do not have the concept of product publicity to promote sales, and are unaware of the nature of advertising and publicizing work, even to the point of regarding it as an intellectual activity. They do not understand the vital significance that advertising publicity has for public opinion. Some even regard the management of publicity to further sales as very low-class work. Some departments use their administrative authority to restrict publicizing local products; some city construction offices consider billboards as "patchwork," so they disapprove setting these up in commercial districts and busy streets; some municipal electrical departments turn down the erection of neon advertising in order to save on electricity; some financial departments turn down enterprise loans for advertising, etc. These obstacles and system make it very difficult to carry out the work of promoting sales by publicizing Liaoning's local products. So we just look upon products from outside of Liaoning playing a major role in public opinion, with large-scale publicity, unable to market our own products in other provinces, while losing over half of our own market to outsiders. This is very painful.

#### **Some Recommendations for Strengthening the Sales Publicity of Local Products**

Advertising competition grows more intensive every day. Only the strong will survive, the weak will fail. The situation demands that we must take appropriate countermeasures immediately. We must actively make such choices in market competition as: concerning advertising as an important activity for the promotion of sales, we must organize enthusiastically, provide strong support, with fervent leadership, and be active in the market.

First, deepen reform. Move enterprises further into the market. The key to reform lies in the government changing their role from the traditional "enterprise management" to "market management," not monopolizing or meddling in enterprise management, making enterprises lose or give up their reliance on government, but depend on their own operations to enter the market, aware that the work of promoting their product sales should be an everyday activity. On this basis, they should strengthen the work of promoting their products, make enterprise operations more competitive, and improve management.

Second, raise awareness of the function of advertising. Experience has demonstrated that in the optimum advertising publicity investment, every one yuan invested can bring back about five yuan in interest and taxes. Looked at from the standpoint of the current product sales pattern, advertising publicity has a massive influence on market purchasing psychology and actions. Whether it is household or manufacturing materials, having or not having the work of publicity among the public is of vital import in products adding value by changing from materials to cash. Practice has demonstrated the relationship of advertising to production as: enterprises produce—advertising stimulates—intention to buy—the business community orders—the customers purchase—enterprises again produce—advertising again stimulates... At present, whether a large quantity of products are advertised has a direct influence on circulation and consumption; this is an irresistible trend. Therefore, some dedicated entrepreneurs must have a sufficient awareness of product publicity.

Third, widen policies, which will stimulate publicity to promote sales. One: reform and perfect enterprise allocation policies, emphasizing encouragement on the basis of performance; this will make managers' and workers' income really related to their contributions, encouraging by paying better for more work. This will ignite the enterprises' enthusiasm for publicity to promote sales. Two: encourage publicity to promote the sales of local products, through the promotion of Liaoning's local products by commercial departments. They can select a certain rate of rewards based on volume of sales. Three: adjust loans policies to recognize investment in advertising and publicity as a normal part of the business of operating an enterprise, permitting and encouraging enterprises to use loans for advertising. Four: advertising and publicity departments withing Liaoning should contract to advertise local products, giving them preference in pricing where appropriate, and continuing supportive policies.

Fourth, strengthen coordinating service, promoting the work publicizing local products. Provincial and city party and government departments at all levels should set up "great advertisement" thinking, using the powers and functions of the state to publicize local products, giving them genuine services so that they may derive genuine benefits. Use our publicity and public opinion bastion to really do something for the local economy. Through this work, we will make the Liaoning consumer love our province, and use local products. It will make Liaoning known to outsiders, and cause them to bring in Liaoning products.

Fifth, encourage and support the advertising industry. Advertising is the enterprise's medium for publicizing its products. It is an important component of the service industries. As these industries develop, it strengthens the media, and plays a huge role in our booming economy. We should fully encourage the use of television, radio, newspapers and magazines. To get the message to the consumer, directly publicizing Liaoning's businesses and

products, to obtain appropriate rewards by legal means. Those units and individuals who do well in this work should be rewarded. The various policies in this area should be more open. The principle that economic construction is central should underlie the management of the site and the means of advertising, with renewed examination and decision. For example, advertising in cities, buildings in booming regions, transport stations, on buses, etc., should all be permitted. Use this to create an atmosphere of competition and publicity, attracting people from all over to purchase goods and place orders.

### Dalian Securities Exchange Profiled

93CE0439B Shenyang LIAONING RIBAO in Chinese  
22 Mar 93 p 3

[Article by Xue Feng (5641 1496) and Zhang Yinghui (1728 5391 6540): "Striding Forth From a High Starting Point; A Tour of the Dalian Securities Exchange"]

[Text] This is a modernized securities exchange center in north China.

Monday to Friday. The alarm has just sounded 0900, and the Dalian Securities Exchange's huge, nearly 10 square meter multicolor display is switched on punctually. Highest price, lowest price, selling price, buying price...the quotations change constantly. Red-jacketed representatives of securities exchange organizations intently take instructions by phone, and operate micro-computers. Ringing telephones, clattering keyboards, terse answers...all merge into the richly modern rhythmic song of securities trading.

Dalian's second class securities market was started in 1986, and has developed rapidly in the years since. Various securities trading organizations came onto this stage one after the other, with over-the-counter trading found in urban and rural areas all over. Some, such as those in Shanghai and Shenzhen, have established offices for trading in other places. By the first half of 1992, there were 58 securities exchange organizations in Dalian. Up to the end of October, 1992, the volume traded was 7.7 billion shares, with 5.7 billion in just the first 10 months of last year. However, we can speak of that now, as the contrast between the securities business's need to develop rapidly and its more old-fashioned counter exchange form increases in intensity. The many shortages and other problems produced by this will definitely be a serious deterrent to the further development of the Dalian Securities Exchange.

"Spring comes with the east wind," Deng Xiaoping's speech in south China, gave a massive injection of vitality to the reform of the Dalian securities business. Leadership of the municipal government and the People's Bank observed the situation and seized the opportunity, then decided to establish the Dalian Securities Exchange Center.

Initially, there were two possible models to choose from in establishing the Center: one was to set up a manually

operated system appropriate to the requirements of the current bond exchange; the second was to set up a computer-operated system which would satisfy the needs of the stock exchange and conform to the regulations of the bond exchange. The latter's degree of difficulty was clearly several times greater than the former's, even as much as several tens again as much. After the president of the People's Bank met with relevant departments to carefully consider the matter, decided that, "Establishing the Dalian Securities Exchange Center should be a bold breakthrough in new ways of thinking about old forms. The developing situation obliges us to set out from a high starting point; otherwise, in several years, and in less than 20 years at the outside, our developmental system could be ruthlessly eliminated!"

This was the final word. On 27 October 1992, after five months of intensive preparation, the Dalian Securities Exchange Center commenced trial operations. It was successful on the first try! This was giant stride forward for the automation and regularization of the Dalian securities business!

The automated exchange system, which was designed in accordance with the current situation and developmental trends of the Dalian Securities Exchange, will concentrate the activities of more than 20 of the larger securities organizations, and unify their management. After each securities counter has accepted an investor's trust, they will transfer the order by hot-line telephone to a representative in the market, where the order is promptly input into a computer terminal, and automatically matched by the computer according to pricing preference and timing preference, concluding the transaction. They use a communications system to connect with various securities business counters, simultaneously displaying trading information. This system reflects to the greatest possible degree the principles of openness, equality, and fairness. It has speeded up the system of closing accounts, assured market participation, and has made the Dalian Securities Exchange Center a modernized trading center capable of multiple operations in north China.

Since the automated exchange system went into operation last 27 October, the equipment has functioned normally, accurately and quickly accomplishing various quotas according to original business circuits. The market exchange is very lively, with the exchange volume approaching RMB 410 million yuan, with the highest exchange volume for one day being RMB 14 million yuan. This achieved sizable benefits for society and the economy, and promoted the healthful development of the Securities market.

For its organizational format, the exchange center selected the membership system. There are now 19 units which have seats; as the scale of the exchange enlarges, the number of member units will also increase, especially

those from other locations. Members act as major participants in the exchange, play an important functional role on the exchange, and keep the exchange relatively stable.

In order to keep the exchange orderly and protect the legal rights of investors, the Dalian Securities Exchange Center has set up a tight management system, and has referred to appropriate regulations from securities exchanges in Shenzhen, Shanghai, and abroad. They have set up a complete set of management regulations, to carry out close supervision and control in the market.

The vitality of things lies in continually creating and overstepping. The Dalian Securities Exchange Center is now undertaking the preparation of other types of trading, establishing such new business services as trade representatives in various exchange centers and securities futures exchanges. At the same time, they are creating the conditions favorable to their efforts to obtain investment funds from other locations throughout the nation, and put these on the market in the Dalian Securities Exchange Center, as they develop in the direction of becoming a national exchange center which has investment funds as its primary business.

### **Guangzhou's Economic Development Surges Ahead**

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[Article by Correspondent Hou Wenfang (0186 2429 6078): "New Movement in the Development of Guangzhou's Economy"]

[Text] "Even though overheating has occurred elsewhere in the country, Guangzhou's economic development has not overheated, but rather it is facing a situation that is not bad at all. It presents a rare opportunity. Guangzhou's leaders are in agreement about this." This was the opening remark of Guo Xiling [6753 6932 7325] when the correspondent interviewed him.

This is indeed the case. The past year of Guangzhou's reform and opening to the outside world has been the finest year both in terms of the creation of a climate and actual achievements. Provided with a rare opportunity in economic development, notably the influx of a large amount of foreign capital for the building of key projects, Guangzhou will use half of this year's investment in fixed assets for the building of 20 key projects, and it has drawn up 10 economic development goals to guide local government macroeconomic development. These 10 goals are as follows: 1) a 13 percent increase in gross domestic product [GDP] (as compared with 1992, and the same applies hereinafter); 2) 14 percent greater industrial added value; 3) 5 percent agricultural added value; 4) a 12 billion yuan investment in social fixed assets, up 30.4 percent; 5) 13 percent growth of foreign trade exports; 6) use of \$957 million of foreign capital,



up 31 percent; 7) 18 percent increase in social commodity retail sales; 8) 10 percent increase in the price index; 9) 8 percent increase in budgeted public revenues; and 10) an 11.2 percent population increase. Guangzhou's mayor, Li Ziliu [7812 1311 3177], recently told the correspondent: "We have to seize opportunities and race against time. So long as a market exists, there is a return to be made, and overall national development is not hurt, Guangzhou should develop as fast as it can!"

### Salient Points of Economic Work in 1993

Guo Xiling briefed the correspondent on the salient points of the Guangzhou municipal government's economic work in 1993 as follows:

- 1) Moving ahead with the all-out development of Guangzhou's pattern of six mainstay industries. The six mainstay industries—high technology light industry, transportation and communications, commodity circulation, finance and insurance, construction and real estate, and tourism—are based on three consecutive Guangzhou input-output analyses, and they were decided upon after many years of study and validation. Beginning in 1993, a pattern of productivity based on the industrial structure and available space has to be worked out for the foregoing six mainstay industries to make them the centerpiece of Guangzhou's economy. A rolling development plan whereby a number of projects are in the planning stage, a number are in the project authorization stage, a number are in the construction stage, and a number are in the completion stage is to be implemented.
- 2) Concentration of energies on the fostering of eight entrepreneurial groups. These eight entrepreneurial groups are: 1) the Guangzhou Motor Vehicle Group; 2) the Guangzhou Motor Car Group; 3) the Wanpao Electrical Appliances Group; 4) the Guangzhou Baiyun Shan Enterprise Group; 5) the Guangzhou Construction Group; (6) the Guangzhou Light Industry Import-Export Group; 7) the Oriental Hotels Group; 8) and the Southern High Rise Building Group. The Guangzhou municipal government will adopt a "support first, benefit later" policy toward these entrepreneurial groups. It will provide support for from three to five years to enable them to become entrepreneurial groups that have substantial influence both inside China and abroad, and that ultimately become major payers of profits and taxes to the Guangzhou municipal government.
- 3) Rapid development of tertiary industries for the long haul and focusing on the present. The year when tertiary industries contributed the greatest percentage to Guangzhou's gross domestic product was 1991 at 49.3 percent. This declined slightly in 1992 to 46.47 percent. One might say that tertiary industries have already become a major integral part of Guangzhou's economy. In 1993, the building of 10 major systems is to begin as follows: 1) A complete and open consumer goods and means of production market system; 2) an

integrated land, sea, and air transportation system that meets international standards; 3) a highly efficient, postal and telecommunications system that serves all of Guangzhou; 4) a multi-channel, multiple type, multi-level downtown financial system; 5) a large scale and rather high quality tourist service system having a local character; 6) a full function, rapid, and convenient information and consulting system; 7) a market medium service organization system that meets market development needs; 8) a first rate scientific research system in the country's major cities that is in keeping with economic development, and that is able to meet the needs of the steadily rising quality of the economy and caliber of the residents; 9) a commercialized, industrialized, and socialized real estate service system; and (a) a daily life service and social security system that is consistent with a people's standard of living at the comfortably well-off level.

### Accelerated Building of a Market System

As a result of the coastal area priority development policy that the Central Committee drew up fairly early on, as well as the implementation of "special policies" and "flexible measures" favoring Guangdong Province, unfettered development is underway everywhere along rivers, along the province's borders, and along railroads. If Guangzhou intends to continue to lead economic development in the future, it can no longer pin its hopes on "special" preferences or "flexible policy measures" bestowed by the central government. It has to apply to the full the relatively flexible economic administration system built up gradually during the past 14 years of reform and opening to the outside world, increase its reserve strength for development, and accelerate building of the market systems to construct a stage for market economic activity. Guangzhou plans to establish or improve the following three major kinds of markets in the future:

- 1) Consumer goods markets. The emphasis is to be on the establishment of 10 major shopping centers and supermarkets. In addition, 10 large wholesale markets are to be built, mostly for the sale of fresh vegetables, fruits, foodstuff, aquatic products, poultry and livestock, household electrical appliances, toys, clothing, and shoes.
- 2) Means of production markets. Three complete means of production trading centers are to be built in which displays, retailing, and cooperative trading are concentrated to play a multi-functional role. At the same time, five large specialized markets are to be set up for motor vehicles, processed steel, nonferrous metals, machine tools, and electrical equipment.
- 3) Financial markets. Modern financial discount loan centers, foreign exchange allocation centers, and securities trading centers are to be built step by step, in addition to which the cooperative Sino-foreign building of international trading centers is to be encouraged. Guangzhou plans to set aside a six kilometer square tract

in Yangqi Village to the east of the city for the building of a financial district. The general idea is to build two 140 story high skyscrapers in the financial district as financial district landmarks. Once the entire financial district has been built, money will flow into Guangzhou from around the world to turn Guangzhou into the financial center of South China. Building of the financial district's infrastructure has already begun. Financial groups in Hong Kong, the United States, and Guangdong have provided financial zone overall development plans. During the second half of 1993, tenders will be called for.

In addition, Guangzhou will gradually promote foreign exchange futures buying and selling, and the buying and selling of gold. The number of foreign-owned banks in Guangzhou will also increase from four in 1992 to 20 in 1993.

#### Building 20 Key Projects

Guangzhou realizes that it must develop more reserve strength and build more infrastructure, and it also appreciates the urgency of building raw and processed materials industries. Only by adjusting and changing the city's traditional industrial mix to increase the proportion of basic raw and processed materials can Guangzhou maintain its dominance and its prominent cooperative role and position in the future Guangzhou-Hong Kong-Macao economic zone. Therefore, Guangzhou must build a number of fairly large scale projects, concentrating its energies on moving ahead with the building of projects that will have a widespread influence on the entire city. In 1993, Guangzhou will invest in 20 engineering projects deemed to be essential 6 billion yuan of the 12 billion yuan slated for investment in social fixed assets. These engineering projects have been divided up by type as follows: two energy type; four communications and transportation type; six key raw and processed materials type; two urban infrastructure type; five processing industry type, and one commercial type.

#### Continued Foreign Trader Investment Frenzy

Twelve of the foregoing 20 key projects are continuation projects. They include projects in which foreign traders have invested, all of which are moving ahead smoothly. For example:

- 2.07 billion yuan investment in the first stage construction of the Zhu Jiang Power Plant, a joint venture with the Hong Kong New World Group. This plant has two 300,000 kilowatt electric power generating units, one of which was test-operated at the end of 1992, and which will generate electricity for the grid during the first quarter of 1993. Plans call for the other unit to be test-operated during the third quarter of 1993, and to generate power for the grid by the end of the year. As a result of the fine economic returns, foreign traders are extremely willing to cooperate in

the second phase investment of 1.8 billion yuan.

- Five Rams motorcycle project in cooperation with the Japanese Honda Corporation in which 140 million yuan will be invested by the end of 1993 to create a 100,000 vehicle per year production capacity. Investment during the second stage is to total 250 million yuan to expand capacity to 300,000 vehicles per year.
- Guangzhou Peugeot Motor Vehicle Project in cooperation with Peugeot of France for the expansion of production capacity from 15,000 to 30,000 vehicles by the end of 1993. Output is to be expanded to 150,000 vehicles by 2000 at an investment of 270 million yuan.
- 900 million yuan joint venture with New World for the building of the 22 kilometer long northern circumferential high speed highway, which is to be built in two tiers. The top tier will contain a six lane high speed highway. On the tier below will be commercial buildings. The money is available; the project is moving ahead smoothly; and expectations are that this highway will be opened to traffic during the third quarter.

Other projects to be completed in 1993 include the first stage of the Guangzhou projects that is being built in cooperation with the Hong Kong Yue-hsiu and the Macao Yang-ch'eng companies; and the polyester slicing project on which Japanese and U.S. corporations are cooperating at a total investment of 350 million yuan.

Eight key engineering projects on which construction began in 1993 have also attracted the attention of foreign traders. Virtually all these new projects either already have or are expected to have an investment of foreign capital. They include the 115,000 ton ethylene project having a total investment of 3.9 billion yuan, which will use the credit of buyers or sellers of many foreign banks; the 40,000 ton polypropylene project for which an export loan has been obtained from Italy and on which construction is to begin during the second quarter. The Guangzhou subway project at a total investment of 5.8 billion yuan. Although negotiations with the French have halted, obtaining government loans and export credit pose no problems. Negotiations are now underway with the United Kingdom, the United States, Italy, and South Korea, and preparatory work is moving ahead urgently; all-out construction is to begin before the end of the year. The Liede waste water treatment project requiring an investment totaling 290 million yuan shows recent prospect of receiving a \$9 million gift from the German Government. The Zhu Jiang Steel Mill requiring a total investment of 3 billion yuan is a joint venture with Italy that will use new continuous casting and continuous rolling technology that the Germans took the lead in developing more than two years ago. A joint venture partner for a camcorder project for quick solution to production problems at fixed sites in the country. The foreign trader investment frenzy will continue in Guangzhou.



## FINANCE, BANKING

### Ministry Official on Direction of Financial Reform

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[Article by Wang Xingyi and Wu Dongsheng, affiliated with the General Office of the Finance Ministry: "A Study of the Direction of Fiscal and Financial Reforms in Relation to the Establishment of a Socialist Market Economy"]

[Text] The goal of the efforts to reform the economic system of China is to establish and perfect a system of socialist market economy. In view of this goal, China's model of macroeconomic management should also change from one of centralized, direct management characterized by a planned economic system and by the use of mainly administrative means into one of indirect management characterized by the separation of government from enterprises, by the two-tier regulation and control exercised by the central and provincial governments, by a socialist market economy, and by the use of mainly economic means. In the process of this market-oriented economic reform, the fiscal authorities and banks will be the agencies in the country which exercise macroeconomic regulation and control over the national economy as a whole, and will thus play an even more important role. How to reform the fiscal system and banking system and, especially, what kind of relations should be established between the two in the process of reforms have become important issues that need to be resolved in the process of establishing a system of socialist market economy.

#### 1. Issues of Policy Coordination Involving China's Fiscal and Financial Systems That Call for Analysis and Study

China has achieved great successes in its efforts to reform the economic system over the 14 years. The system, as it stands now, is to some extent different from the previous system; and a system of market economy is being established and perfected. With regard to the fiscal system, the practice of unified management of fiscal revenues and expenditures—appropriate to the highly centralized system of planned economy—has been terminated; in its place, there has emerged a fiscal system which is based on contracts between the center and the localities and which is characterized by the practice of "eating from different pots." In addition, some provinces and autonomous regions in the country have also carried out trial implementation of the "separate taxation system." With regard to banks, the situation of banks serving as the cashiers of the planning and fiscal authorities has been fundamentally changed. And, the situation of the People's Bank being the only bank performing the functions of commercial banks has been fundamentally changed. There has emerged a different situation where the People's Bank plays the leadership role, and where the specialized banks and

various financial institutions exist side by side. The work of introducing management practices according to which the specialized banks are managed in the way enterprises are managed is proceeding gradually. The important task of the fiscal agencies and banks, as the institutions responsible for macroeconomic management, is to provide services needed by economic development, and regulate the economy so that it can function smoothly. In this process, some deep-level contradictions besetting the economic management system and the process of economic development will inevitably be reflected in the fiscal and financial policies. If the fiscal and financial systems and policies are analyzed and studied only in terms of the relations between the functioning of the fiscal system and the functioning of the financial system, without taking account of the situation of the overall economic system, the macroeconomic situation, and the situation of micro-level units, such analyses and studies will tend to lead to one-sided conclusions. Therefore, it is necessary to broaden the horizon, analyzing fiscal and financial issues on the basis of relating them to the overall economic system and the functioning of the national economy as a whole, so as to—on this basis—correctly analyze, grasp, and define the keys to the development of fiscal and financial policies as well as the keys to the development of the fiscal and financial systems.

1. Analysis of the systems. The fiscal and financial systems, which are closely related to the overall economic system, still need to undergo further reforms. The current imperfections in the fiscal and financial systems have to some extent brought about the incoordination between the fiscal system and banking system.

The economic system is the foundation for the functioning of the economy on the macroeconomic level. In the past China used a highly centralized, planned system under which the fiscal work and banking business were under unified management in accordance with the state's plans. The handling of the relations between the fiscal system and banking system in an administrative manner resulted in banks becoming in fact the cashiers of the planning and fiscal authorities. At that time, it was rather easy to achieve coordination between the fiscal and financial systems, but the use of administrative means to manage the economy resulted in the smothering of the vitality of the economy as a whole. Consequently, the fiscal agencies and banks failed to play its due role in economic activities of society at large. On the whole, China's fiscal and financial systems have undergone some important reforms in the recent years, and the fiscal system and banking system have been separated from each other to some extent. However, functioning mechanisms of the fiscal system and the mechanisms of governing the flow of money and capital which are truly appropriate to the development of a socialist market economy have yet to be established. Under the current fiscal system, the fiscal relations between the center and the localities are still governed by the "system of fiscal contracts with the localities," and the relations between the state and the enterprises are governed by the "enterprise contract system." Such systems

not only have resulted in a situation where the share of the state's fiscal revenues—especially in terms of the central government's fiscal revenues—in the national income has been reduced to such an extent that it is smaller than in the majority of countries around the world, leading to serious fiscal difficulties facing the state and weakening the state's capabilities to exercise macroeconomic regulation and control, but also have strengthened the existing inappropriate way of distributing benefits, have been a factor conducive to the development of regional segregation characterized by the "economies of the lords" [segregated local economies], have been a factor unhelpful to the rational nationwide allocation of resources of society, and have hampered the formation of a unified national market. With regard to the reform of the financial system, currently, there has emerged a situation where the central bank is playing the leadership role, where the state-owned specialized banks are the main actors, and where financial institutions of different types exist side by side. But, the long-used system under which the state-owned banks "supply" funds for enterprises has not been fundamentally changed. The banks are increasing their liabilities, while the funds are not used efficiently. Especially, in the recent years, as under the enterprise contract system the mechanisms of providing incentives and constraints are not balanced, the use of the method of having enterprises assume responsibilities for contracted targets has resulted in no change in the situation of weak constraints on enterprise budgeting. Thus, many enterprises have, based on their own decisions made independently, replenished their circulating funds; and the targets for the increase in the value of state assets and for risk funds have not been achieved. As a result, some enterprises use bank credit funds for paying taxes, for remitting profits, for retaining profits for themselves, and for covering business risks. In this way, the problems in the enterprise management system have further complicated the relations between the fiscal system and banking system with regard to the handling of funds.

2. Analysis of policies. Fiscal policy and the banking system's monetary and credit policies have not been coordinated in a planned, conscious manner, and there are no mechanisms of overall arrangements and coordination in this regard.

An important precondition for the coordination of fiscal and financial policies is the separation of the fiscal work from the work on bank credits, with the competent agencies each doing their own work. At the same time, it is necessary to coordinate fiscal policy and monetary and credit policies, so as to achieve an overall balance involving both the fiscal matters and credit matters. When there is an overall quantitative balance involving both the fiscal matters and credit matters, then the macroeconomic policy would remain a stable and balanced policy even if there are imbalances between fiscal revenues and expenditures and between the revenues and expenditures relating to the credit work as calculated separately. In the final analysis, to achieve an overall balance involving both the fiscal matters and credit matters, it would be necessary to

make the sum of the total amount of fiscal spending and the total amount of credit supply commensurate with the aggregate social supply, preventing the sum of the total amount of fiscal appropriations and the total amount of bank loans from exceeding the aggregate social supply that is likely, so as to prevent the inflation and price rises that can otherwise take place. In our view, in different stages of economic development, it is necessary to adopt flexible fiscal and credit policies under the precondition of keeping an overall balance involving both the fiscal matters and credit matters, so as to promote economic development. To try to achieve an overall balance through focusing exclusively on requiring the fiscal work and credit work each to produce a balance in the relevant sphere will reduce fiscal and financial policies pertinent to specific problems and timeliness. This method represents a rather crude way to achieve balance. At present, there are no such mechanisms of coordinating fiscal and financial policies. Both the fiscal agencies and financial institutions are unconsciously following an expansive policy in an inflexible manner, and each side tends to be unwilling to have its own surpluses be used by the other side in its effort to achieve balance. Take the example of 1991. The amount of additional money supply produced by the difference between the rate of growth of money supply and the rate of economic growth accounted for approximately 19 percent of the total amount of money in circulation on the market. Fiscal deficits and debts accounted for 13 percent of the fiscal expenditures for the year. As both the fiscal and financial policies have been expansive, the task of achieving an overall balance involving both the fiscal matters and credit matters has not been handled well in recent years. Even during the period of rectification and improvement when there should have been "tight policies in the two areas" (i.e., a tight fiscal policy and a tight monetary policy), the fiscal work and credit work still generated persistent growth in the respective areas at rates higher than the rate of economic growth.

3. Analysis of functions. While the old highly centralized fiscal system was dismantled, a new system that can perform fiscal functions appropriate to the functioning of a socialist market economy has not been established and further developed in a timely manner. The role of the fiscal agencies have been excessively reduced. There is inadequate coordination between the fiscal system and banking system in relation to operations involving both sides.

After the reforms over the 10-plus years, the fiscal work is now characterized by a situation very different from the past situation where the fiscal work was governed by a centralized, rigid system. But, in the process of transformation of functions, the state's fiscal authorities are no longer effectively performing some of the basic functions that they should continue to perform, are controlling an increasingly small part of the fiscal affairs, and have much of their power on fiscal matters taken away by other institutions. There are several dozens of "special funds" which are managed by the various institutions, and which are outside the state's fiscal budget. Although some funds

are still listed in the budget and included in the overall calculations of revenues and expenditures contained in the budget, the state's fiscal authorities are no longer able to exercise effective management and supervision of those funds. Take the example of 1992. Those funds accounted for 8.95 billion yuan of the revenues and expenditures listed in the budget, and accounted for around 3 percent of the state's fiscal expenditures—not including the fiscal appropriations for capital construction totaling over 30 billion yuan. In a strict sense, the state's fiscal budget and report on budget implementation can no longer reflect the overall situation of the state's revenues and expenditures. The amount of extra-budgetary fiscal funds is approaching that of budgetary fiscal funds. The constraining effect of the budget has been greatly weakened. While much of the fiscal power has been delegated, the state's finance still has to bear the burden resulting from some matters involving fiscal power and fiscal resources. For instance, price subsidies and subsidies given to enterprises for the purpose of covering their losses have become a heavy burden on the state's finance. Faced with serious fiscal difficulties, the fiscal agencies—bogged down in daily activities of receiving and paying money—have not been able to find more energy and time to effectively supervise the functioning of the national economy as a whole in terms of carrying out macroeconomic regulation and control. There have occurred such phenomena as those of fiscal agencies making overdrafts from banks and withholding appropriated funds—partially in some cases. These phenomena, in turn, have created burdens on the banks, and have to some extent adversely affected the flow of bank funds. In terms of bank functions, the specialized banks, after becoming enterprises, must make profit-earning their goal, and operate as enterprises do. At the same time, it is necessary to understand the important role that banks play in the process of reproduction in society. The specialized banks in China still have to preform, to varying degrees, some functions which are part of the state's management functions. Specifically, those functions include: implementing the state's monetary and credit policies; exercising control over enterprises' circulating funds; exercising control over silver, gold, and foreign exchanges; enforcing the regulations on credit and settlement; exercising control over cash and wage funds, etc. At present, banks have mixed their operations based on their role as enterprises with the functions which are part of the state's management functions, in performing their functions and in conducting credit business. Policy-based loans are mixed with loans based on business considerations. As a result, banks have failed to reform well in regard to both their functions based on their role as enterprises and the functions which are part of the state's management functions. It is still necessary to make overall arrangements—in connection with the reform of government agencies and the transformation of functions of government agencies—on those matters involving both the fiscal system and banking system such as foreign exchange control, foreign debt management, the use of discount rates in relation to low-interest loans, trust business, securities business, and insurance business.

4. Analysis of relations with enterprises. The management of fiscal funds and the management of bank funds are not based on a sound micro-level system, sound pricing system, and sound benefits distribution system. The situation where enterprises eat from the big pot of fiscal funds and from the big pot of bank funds has not been completely eliminated. Such a state of affairs has direct negative and constraining effects on the relations between the fiscal system and banking system.

The problems in the relations between the fiscal system and banking system are, on the whole, problems that happen in a process of reform and development and in the process of progress. The reason for the existence of those problems is that the structural reforms in different areas are carried out separately, that there has been a failure to carry out a set of coordinated reforms encompassing the fiscal and financial systems as well as the economic system as a whole, and that the reform objectives have not been achieved. With regard to the enterprise contract system, such a system entails contracted responsibilities only for profits but not for losses. When making losses, enterprises can still eat from the "big pots" of the fiscal and bank funds. Nationwide, currently, nearly one-third of the state-owned enterprises are making losses, and one-third of the enterprises are characterized by low economic efficiency. The enterprise management system characterized by the contract system is unable to solve this problem. It is for the time being still difficult to sever the "paternalistic" umbilical cord linking the enterprises to the state. Such a situation is sure to have its impact on the fiscal agencies and banks which have to perform functions relating to the tasks of the state, and has created some burdens on the fiscal agencies and banks. Take another example. The policy-related losses caused by price distortions—such as the policy-related losses made by such industries as oil and coal industries—have also adversely affected the relations between the fiscal system and banking system. If efforts are not made to tackle first the issues of the enterprise system and the pricing system, and if the fiscal agencies and banks focus exclusively on shifting blames onto each other, then the most that can be achieved would be to shift the burdens onto each other. Such a situation would be unhelpful to setting right the relations between the fiscal system and financial system in regard to the fundamental aspects of the relations.

## **II. Ideas on the Reforms Which Can Result in the Formation of Relations of a New Kind Between the Fiscal and Financial Systems in China's Socialist Market Economy**

In view of the requirements of the system of socialist market economy, the goal of reforms of the relations between the fiscal and financial systems is to find, through deepening reforms, the fiscal and financial systems and the corresponding functioning mechanisms appropriate to the system of socialist market economy, scientifically determining the functions of the fiscal agencies and banks, so as to ensure—through the designing of the system—that the fiscal agencies and



banks, while having a clear division of labor between themselves and performing their own duties, can also apply fiscal and financial policies in a flexible and coordinated manner in view of the demands of economic development in different periods so as to contribute to the sustained, steady, and healthy development of the economy in an effort to achieve the objectives of the state's macroeconomic regulation and control. The following are ideas on several specific areas:

1. Do a good job of carrying out coordinated fiscal and financial reforms. Through deepening the reforms of the fiscal and financial systems, develop and perfect the fiscal agencies and financial institutions in terms of their capabilities to perform their functions; promote the separation of the fiscal work from the credit work; introduce proper division of labor between the fiscal agencies and financial institutions; and ensure coordination between the fiscal agencies and financial institutions through designing the system in a certain way and through promulgating the necessary regulations.

With regard to the fiscal system, it is necessary to proceed with the establishment of a fiscal system based on the separate national and local taxation, and correctly handle the relations between the center and the localities in regard to fiscal power and other powers. It is necessary to energetically press forward with the across-the-board introduction of the practice of "separating taxes from profits, making debt payments after paying taxes, and distributing dividends after paying taxes." Establish scientifically based distribution relations between the state and state-owned enterprises. It is necessary to make energetic efforts to speed up the introduction of the practice of double-entry budgeting, and to speed up the reforms of the taxation system, of the enterprise financial system, of the accounting system, and of the state-assets management system, thereby establishing a scientific, effective system of distribution of fiscal resources. It is necessary to let the fiscal agencies manage those affairs which should be the concern of the fiscal agencies, on the basis of taking account of the state's overall planning on the reforms of government agencies and the demands of economic development, while reducing the instances in which management is carried out under a situation of multiple sources of authority. Achieve the objective of establishing a fiscal system of the state which is balanced, which has the capabilities for sustained performance, and which is capable of performing all the required functions. With regard to banks, it is necessary to increase the effectiveness of means that the central bank uses for exercising indirect regulation and control over the specialized banks. In reforms, continue the efforts to make the specialized banks move towards becoming enterprises and the efforts to make enterprises raise funds on the market; change the situation where only the state-owned banks have control over the funds needed by enterprises. As the specialized banks become enterprises, funds themselves should also become a commodity. It is necessary to perfect the capital market, develop direct fund-raising in a big way, and reduce the risks that banks incur in raising funds. Thoroughly reform the mechanisms of indirect fund raising

based on the mediating role of banks. It is necessary to transform the old "supply" system governing the provision of bank funds into a "lending" system, that is, forming debtor-creditor relations between banks and enterprises on the basis of the laws of value and market mechanisms. It is necessary to achieve further improvements in relation to the situation where the central bank plays the leadership role, where the state-owned specialized banks are the main actors, and where financial institutions of various types exist side by side, so that the specialized banks can acquire mechanisms of linking the amount of lending to the amount of deposit, of achieving balance regarding their own operations, of making themselves responsible for risks, and of exercising self-restraint. Change the way of regulating the specialized banks from one based on the control over credit quotas into one based on the control over debt ratios.

2. It is necessary to conduct long-term, overall planning on the budgetary fiscal funds, extra-budgetary fiscal funds, and banks' credit funds; properly determine the areas in which funds of different categories can be used; and use policy measures for making the amount of each category of funds appropriate. Determine where to gather funds and where to use funds in a rational way. Carry out fiscal management and financial management in such a way that the work is done under the guidance of policies and in accordance with regulations.

The special feature of China's economic development at the present time is that the economy develops amid fiscal difficulties. The amount of extra-budgetary fiscal funds almost equals the amount of budgetary funds. Budgetary funds, extra-budgetary funds, and banks' credit funds constitute the three major elements of similar importance. In 1991, of the total amount of funds in society, fiscal funds accounted for 32.6 percent, extra-budgetary funds accounted for 31.4 percent, and credit funds accounted for 36 percent. As some of the regulations that the state promulgated in the past are no longer appropriate to the new situation in economic development, and as in the process of enforcing the regulations the localities and enterprises would exploit the loopholes while some exceptions are made, the effect of the state's policies on the allocation of funds of the entire society and, especially, on the distribution of the national income appears to be not as strong as the state would like it to be. Fruits of economic activities are not distributed in the right way, and resources of society are not allocated rationally. This situation will make it more difficult for the state to exercise macroeconomic regulation and control, and increase the costs related to the functioning of the economy and the burden on the state. Therefore, the state should take preemptive actions to conduct overall planning on the allocation of the funds of the entire society, and gradually achieve the rational allocation of resources of society through the proper adjustment of fiscal policy, financial policy, and policy on the distribution of the national income. On this basis, properly determine for which purposes the various categories of funds should be used, so as

to reduce as much as possible the instances of improperly using funds for purposes other than those for which the funds are supposed to be used, thereby introducing the practice of standardized management in fiscal work and financial work.

3. Formulate mid- and long-term fiscal and financial policies. Also, do a good job of coordinating mid- and long-term fiscal and financial policies and the annual fiscal budget and credit plans. Coordinate fiscal policies and financial policies so that they are mutually supportive.

In view of the different states of economic development in different periods, it is necessary to consciously use different methods to coordinate fiscal and financial policies, so as to enhance the policies' effectiveness in timely performing regulatory functions. There can be four ways of combining tight or loose fiscal and financial policies, that is, combining a loose fiscal policy with a loose monetary policy, a tight fiscal policy with a tight monetary policy, a tight fiscal policy with a loose monetary policy, or a loose fiscal policy with a tight monetary policy. When the fiscal situation is good, if it is difficult to achieve balance with regard to credit funds, then use the surplus resulting from a situation of fiscal revenues being more than fiscal expenditures to achieve balance. When the credit situation is good while there is a fiscal deficit, it is proper to use the reserve credit funds (i.e., the difference between the amount of available credit funds and the amount of credit funds that have been used when the former amount is larger than the latter amount) to achieve balance, so as to improve the flexibility of the fiscal and financial policies, while ensuring the overall balance with regard to aggregates. Such measures should be taken on the basis of considerations of the differences in the state of economic development, and be used in a coordinated manner. For instance, under the current situation where both the fiscal work and enterprises are faced with difficulties, it is not advisable to increase fiscal revenues through levying taxes. At the same time, the limited funds used for fiscal expenditures have to be used for defense, foreign affairs, cultural affairs, education and health care, and for investing in public projects—which have low profit ratios and in which enterprises and individuals would rarely invest—such as the key energy and transportation projects; thus, the amount of spending is inflexible to some extent, and it is difficult to reduce spending, resulting in imbalances between fiscal revenues and expenditures. On the other hand, funds available to banks are relatively abundant; thus, to artificially increase lending will further increase aggregate demand which is already excessive, and is likely to lead to the overheating of the economy and inflation. In order that the fiscal and financial policies can maintain a certain degree of flexibility under the precondition of keeping control over the total supply of money so as to make the macroeconomic policy a stable and flexible one, it is necessary to combine a tight fiscal policy with a relatively loose financial policy as is the case now. Under the guidance of credit policy and plans, banks can reserve some credit quotas so as to cover the fiscal deficit, thereby

promoting the healthy growth of the economy, while also achieving the objectives of keeping an overall balance involving both the fiscal matters and credit matters. In implementing those measures, it is necessary to emphasize reducing the amount of funds obtained through borrowing or overdrafts and keeping the amount of such funds within a certain limit.

4. In view of the current state of economic development, in carrying out macroeconomic regulation and control, it is necessary to enhance the state's indirect regulation and control which is part of the state's macroeconomic management. Strive to promote both macroeconomic regulation and control and the use of management practices of enterprises. Get rid of the tendency to look at things purely from the perspective of departmental or sectoral interests. Keep an overall balance involving both the fiscal matters and credit matters.

The specialized banks have to, on the one hand, become enterprises, and, on the other, perform functions which are part of the state's economic management functions. Because of such a situation, the banks, in their practical work, can find that their work on performing their functions based on their role as enterprises and their work on performing the functions which are part of the state's management functions tend to interfere with each other; thus, the banks can face dilemma in their work. It is proper to consider separating business operations from policy-related operations. Loans based on business considerations are to be made independently by the specialized banks mainly on the basis of considerations of the factors of profits and risks involved. The central bank would examine and evaluate the performance of the specialized banks in business operations mainly by looking at the banks' liabilities and economic efficiency. In regard to performance in the area of policy-related loans, the central bank would mainly try to determine whether the banks have performed the economic management functions as the state has requested, and whether the banks have complied with the state's economic policies and laws; the emphasis would be on the effects of the banks' work on society. While asking the specialized banks to perform some economic management functions and examining the effects of their work on society, the government should also create conditions so that the relations between the state and the specialized banks can be established as much as possible on an economic basis, and are guided by the principle of economic interests. When, in regard to the handling of funds, the interests of the banks themselves conflict with their duties to perform functions which are part of the state's management functions, the government of the state and the central bank are entitled to adopt effective measures to ensure that the specialized banks conscientiously perform the functions of macroeconomic management, so as to safeguard the overall interests. In order to coordinate fiscal policy and financial policy, it is imperative to achieve an overall balance involving both the fiscal matters and credit matters. The fiscal agencies



and banks should all get rid of the tendency to look at things purely from the perspective of departmental or sectoral interests.

5. While carrying out such reforms as the reforms of the enterprise management system and the pricing system, strive to achieve fundamental improvement of the government's fiscal situation and the financial situation of society, so as to enhance the effectiveness and flexibility of the fiscal and financial means used for exercising macroeconomic regulation and control.

Currently in China, the government's fiscal situation and the financial situation of society are as follows: There are imbalances between fiscal revenues and expenditures; there are important potential fiscal difficulties; and the state's finance is faced with serious difficulties. The situation regarding the supply of bank funds is characterized by the expansion of the supply of basic money and a lack of growth in the supply of market money. The funds remaining in the process of reproduction in society are no longer circulating and playing the value-increasing role as they should. The amount of fiscal spending and the amount of lending tend to be inflexible, and the economic efficiency involved is low. Thus, it is necessary to gradually increase the funds at the disposal of the fiscal agencies and banks, reduce the burden on the state's finance, reduce bank losses caused by bad debts, and reduce the inflexibility in fiscal spending and bank lending, so that fiscal spending and bank lending can be flexible, that is, being able to expand or contract. It is necessary to, in connection with the reform of the enterprise management system, strengthen the constraints on enterprises with regard to property rights and budgeting, and increase the degree of responsibility that enterprises assume for their own operations, for paying taxes and for repaying debts. Make the improvement of economic efficiency the most important objective in actual practice; strive to achieve that goal of enterprise operation, that is, the goal of producing the maximum amount of profits as is possible; consolidate the microeconomic-level foundation for the functioning of the fiscal and credit systems. It is necessary to, in connection with price reform, sever the "paternalistic umbilical cord" linking the enterprises to the state, so as to make the enterprises exercise self-restraint and assume independent responsibilities for profits and losses. It is necessary to further the efforts to carry out coordinated, comprehensive reforms of the fiscal system, of the financial system, of other systems of macroeconomic management, and of the enterprise management system, and to energetically proceed with price reform, as all these reforms will significantly affect the functioning of the fiscal system and financial system. Price reform must be both conducive to setting right the various economic relationships, and conducive to reducing the burden on the state's finance.

6. In some areas, fiscal policy can provide guidance for monetary policy. It is necessary to scientifically and flexibly apply policies in practice, so that fiscal policy and financial policy can join forces in producing intended overall effects.

The role of the efforts to coordinate fiscal and monetary policies is demonstrated by the guidance that fiscal policy provides for monetary policy when both the fiscal agencies and banks participate in the process of regulating aggregate supply. The allocating of fiscal funds is mainly done by the state, and is a government conduct. How the funds are allocated can directly reflect the intentions of the government. As the fiscal funds which are set aside to be used for construction-related purposes are generally used for fixed-asset investment, the use of such funds can guide banks in providing loans for dispensing floating bonuses and for constructing supplementary facilities, so that fiscal funds and credit funds can be used in a coordinated manner in regulating supply. On the basis of a full consideration of the capacity of the state's finance, the fiscal agencies can also employ such means as the use of appropriate discount rates and the granting of tax breaks to induce the banks to charge different interest rates on loans given to different industries so as to implement the industrial policy and other economic policies. An example in this regard would be to follow a policy of charging low interest rates on loans given to infrastructure projects, which do not produce high profit ratios while it would take a long time to recover the money invested, on agricultural loans, and on loans given to high-tech and new-technology industries, so as to accelerate the development of the relevant sectors, while following a policy of charging relatively high interest rates on loans given to ordinary competitive business firms such as those in the manufacturing sector. Policy-based loans mainly reflect the will of the government, and the fiscal agencies, as agencies of the state performing functions of comprehensive economic management, should participate in the making of the relevant decisions.

#### RMB Exchange Rates, Convertibility

93CE0518A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 5, 1 May 93 38-39

[Article by Liu Hsiao: "Full RMB Convertibility To Be Achieved in One Step?"]

[Text] After RMB was allowed to be taken abroad, the ban on private trading in foreign exchanges has also been lifted, and the swap-market exchange rates are now floating according to the situation of supply and demand on the markets; it is also rumored that banks will also be allowed to buy and sell foreign exchanges at market prices. This would have the same effect as the introduction of uniform exchange rates, and also result in full RMB convertibility. The price will be a 50 percent devaluation of the RMB. It is not certain whether the authorities will tolerate such a development or not.

As indicated by some dramatic changes in the recent period, if the authorities on the mainland can tolerate the situation and refrain from intervening, the RMB is very likely to become a fully convertible currency very shortly. The cost will be a sharp decline in the value of the RMB, a devaluation of over 50 percent happening all at once.

### **RMB Is Now Allowed To Be Taken Abroad**

One important change has been that people are now allowed to take RMB abroad. Since March 1, the mainland authorities are allowing a PRC resident or foreigner to take with him 6,000 yuan RMB each time he enters or leaves the country. This measure has finally put an end to the ban of over forty years on taking the national currency abroad.

In fact, long before the ban on taking the national currency abroad was terminated, RMB already went abroad. In such neighboring countries as Russia and Vietnam, the RMB had already begun to be used as an instrument of payment. RMB also circulated in the border cities and towns of Russia and Vietnam. As for Hong Kong, in the past it was not deemed worthwhile to make the RMB a circulating currency, because the Hong Kong dollar was popular on the mainland.

In the past, only some of the currency exchange stores would handle the exchange of RMB for Hong Kong dollars, and the exchange rate was naturally the market rate instead of the official rate (the official rate on the mainland is 100 Hong Kong dollars to 74 yuan RMB, but the black market rate has been 100 Hong Kong dollars to over 110 yuan RMB since February or March this year). However, on the very day when the ban on taking RMB abroad was terminated, the Chinese-owned Paosheng Bank took the lead in beginning to handle the exchange, in cash, of RMB for Hong Kong dollars; surely the exchange rate used was the market rate.

To Hong Kong, RMB going abroad may only mean some increase in tourism revenue. As Hong Kong receives around a million tourists from the mainland each year, the revenue will total 6 billion yuan, calculated on the basis of assuming that each tourist brings here 6,000 yuan. This sum is the equivalent of over HK\$5 billion, based on the market rate, and would equal 1 percent of the total value of private consumption in Hong Kong. Consequently, many stores—especially the gold stores—in Hong Kong have been making energetic efforts to develop business based on the spending of the guests from the mainland. And the night clubs—even the brothels and other bawdy places—have been trying to attract customers by advertizing that they receive RMB.

But, more importantly, the real significance of RMB going abroad lies in letting the currency be tested by the market on a more widespread basis. It should be pointed out that 6,000 yuan is more than two years' income of an ordinary urban resident on the mainland, so it is not a small sum. The real significance of this step taken by the authorities lies in reducing government control, letting the market forces play a greater role.

### **The Situation Before the Introduction of Uniform Exchange Rates**

Beside the lifting of the ban on taking RMB abroad, many other changes, involving domestic and foreign

matters, have taken place, and all have further pushed the RMB toward the market.

In early March, the State Foreign Exchange Administration, a government agency, issued a circular allowing PRC residents to engage in foreign exchange trading. The circular also stipulates that all financial institutions—which have been authorized by the State Foreign Exchange Administration to engage in trading in foreign exchanges for themselves or on others' behalf—can engage in spot foreign exchange trading on behalf of individual PRC residents. In the past, the state prohibited individuals from engaging in trading in foreign exchanges. Even the state or collective companies and enterprises would have to show trade contracts or other certifying documents in order to ask banks to engage in foreign exchange trading or swaps in their behalf. In the recent years, ever more PRC residents have come to hold foreign currencies. It is estimated that over HK\$5 billion is circulating in Guangdong. Although state-owned banks have been authorized to receive foreign currency-denominated deposits from residents, there have been restrictions on trading in foreign exchanges. As the regular state-owned banks cannot engage in foreign exchange trading on behalf of individual residents, many "illegal" trading companies have filled the vacuum, carrying out trading activities in spite of the official ban. In the end, seeing the demand on the market, the authorities decided to let the state-owned banks to engage in foreign exchange trading on behalf of individual residents. Nevertheless, as it is the state-owned banks that are doing the trading, the trading has surely to be conducted at the official rates. As there is a large gap between the official rates and true market rates, the business of buying foreign exchanges at the official rates would certainly be unable to generate any enthusiasm.

In discussing market rates, it would also be necessary to examine the existing "multi-rate" system (that is, the coexistence of the official rates, the rates used at the foreign-exchange swap centers, and the black-market rates used on the free markets). In January this year, it was widely rumored that uniform exchange rates would be introduced. Because of this and the fact that the prices of foreign currencies were being pushed up by frantic buying across society, the value of the RMB declined sharply, resulting in a black-market exchange rate of over 110 yuan RMB to HK\$100 and a swap-market rate of 1 yuan RMB to HK\$1. The official exchange rate was 5.7 yuan RMB to US\$1, but the swap market rate fell, at one time, to 9 yuan RMB to US\$1 (the free market rate was about 10 yuan RMB to US\$1). Because of this exchange rate storm, a maximum price level was imposed in the swap centers across the country, and the entry into the centers for trading purposes was put under control exercised according to the guidelines on how foreign exchanges should be used. As a result, finally, the swap-market exchange rate was brought back from 9 yuan RMB to US\$1 to around 8.1 yuan RMB to US\$1.

### The Official Rates Are Dead, and Trading Is Free

But black market activities are still rampant even after the foreign exchange swap markets have been established. As the existing regulations entail excessively stringent restrictions on the foreign exchange swap activities on the part of residents, and as the amount of currency that can be exchanged is too small, while the prices are low, most private exchange activities are carried out on the black markets. According to estimates, private individuals on the Chinese mainland now hold foreign currencies amounting to over US\$10 billion. Private individuals in Guangdong, Fujian and Shandong alone hold foreign currencies amounting to as much as US\$7 billion. The volume of foreign exchange transactions has greatly increased. Presently, the authorities are still planning to gather those foreign exchanges through issuing foreign currency-denominated bonds domestically; but it is doubtful whether such a plan can work.

The black-market exchange rates may be the closest to true market rates. Even the exchange rates on the swap markets are different from market rates. After carrying out intervention in the swap markets toward the end of February, in mid-April the State Foreign Exchange Administration finally announced that the swap-market exchange rates should also float according to the situation of foreign exchange supply and demand on the markets. That is, in the future the swap-market exchange rates will float freely, thereby approaching market-determined exchange rates. There is one proviso, though, in the newly promulgated rules on the regulation of the swap markets: When the exchange rates on the markets "fluctuate in an abnormal manner," the authorities may "use economic, administrative and legal means to exercise regulation and control so as to stabilize the exchange rates." As for the official rates, they no longer serve any purpose. Companies and enterprises inside and outside the mainland are engaged in trading based on black-market or swap-market exchange rates. There are some foreign-exchange trading companies in Hong Kong which openly buy and sell RMB in cash at market rates (black market rates), while using swap-market exchange rates in their remittance and telegraphic transfer business. Seeing that all the business has been taken away by black markets or foreign-exchange trading companies, the state-owned banks cannot sit there and do nothing. Thus, it was rumored in Guangdong in mid-April that the local banks would also be allowed to engage in trading in foreign exchanges on the basis of market rates.

If such is really the case and if this policy is applied nationwide, then banks will be able to openly take the business away from the black markets and the foreign-exchange trading companies, and people will be able to trade freely, with exchange rates floating freely. In this way, the preexisting official rates will truly die, and uniform exchange rates will have been introduced. This change will be even more significant than allowing RMB

to be taken abroad, and will be the most fundamental, thorough change—turning the RMB into a convertible currency.

### Is a 50 Percent Devaluation Tolerable?

Nevertheless, to introduce uniform exchange rates in such a manner, it would be necessary for the authorities to turn a blind eye to what is going on and refrain from intervening, letting the RMB face the prodding of the market. As, currently, the black-market exchange rates are the closest to true market rates, the authorities would have to tolerate a 50-plus percent devaluation of the RMB occurring all at once!

Such a large devaluation will have great impact. The largest official-rate devaluation of the RMB so far was a devaluation of 21 percent which took place toward the end of 1989. It would be absolutely necessary to consider the jolting effects of a devaluation of over 50 percent on the economy and society at large. On the mainland, individual savings deposits are now estimated to total 1,300 billion yuan; the flood of this sum of over 1,000 billion yuan can shatter any dam. According to the thinking of the authorities, it would be the most desirable to gradually lower the exchange rates for the RMB, making the rates slowly approach real prices, so that the RMB can become a convertible currency. To accomplish the task in one step will inevitably result in turbulence. What remains to be seen is how much the authorities will tolerate and how capable the authorities are of handling the turbulence.

### Macroeconomic Control for Optimal Investment Funding

93CE0581B Beijing ZHONGGUO SHUIWU BAO  
in Chinese 10 May 93 p 3

[Article by Guo Shuqing (6753 2885 3237) of the State Planning Commission Economic Research Center: "Enhance Macroeconomic Controls To Improve the Composition of Investment Funds"]

[Text] China presently has a problem with the composition of its investment funds. Generally speaking, industries in urgent need of development cannot get adequate sources of funds, but those that do not have such an urgent need or even have something of an excess take up a large amount of funds. Large projects with good performance prospects cannot compete for funds and medium-sized and small projects with uncertain prospects or even prospects that are clearly not good gain a large amount of funds. Investment in transportation, communications, energy, and water conservancy installations to help improve the large environment is inadequate, but investment in unchecked construction of "developmental zones" and real estate for the small environment is excessive. The basic reason is that the industries that need preferential development are precisely the industries that the old system hampers most severely. The funds that they are looking to the state to



provide are becoming more and more difficult to continue. But with society raising funds and not knowing how to go about it, what is even more important is that the current system also restricts them.

We first need to reform the investment system. The main content of the reform should be: (1) Investment authority should mainly be delegated to enterprises and not mainly delegated to local governments. We should expand the share in which enterprises are the principal investors and reduce the scope of the government as principal investor. The government should no longer invest in any industries in which enterprises or enterprise groups can be principal investors, but should give the necessary guidance and support. Direct government investment should only be concentrated on those infrastructure areas which enterprises cannot take on or cannot take on completely. This way we can change a large amount of administrative activity in the investment area to economic activity. (2) All the infrastructures that the government invests in that are profit-making projects (for example, railroads, toll roads, ports, and power plants) as a rule should be organized according to the enterprise model and would best be organized as standard limited responsibility companies or limited stock companies. We are presently popularizing project industries as the main system and advocating the establishment of joint stock companies, but generally we have not truly set up new enterprises strictly according to stock company rules. The administrative interference of relevant government departments still has a very great affect. (3) Profit-making projects, especially profit-making projects in basic industries, even though government investment is involved, also can be given preferential permission to issue bonds and stocks in various ways. The risk of publicly issuing stocks in such major projects as railroads, electric power, and high-speed highways to society would be much smaller than for those processing industry and real estate companies already on the market. Raising funds through securities, if it is slanted toward basic industries, could speed up the change from the irrational orientation of the circulation of funds. (4) We should abolish the procedure of having the level of approval for investments simply determined by the amount of the investment, because this creates a situation where the bigger it is the greater the obstruction and the more basic the greater difficulty in sending it up. Investments should be strictly distinguished by industry. For those pertaining to such projects as transportation, communications, electric power, or water conservancy, with the exception of the necessary technical feasibility investigation by the specialized department, the rest as a rule should be determined by the investing local government or enterprise itself. The state should only implement an examination and approval system for those process manufacturing industries that need to have their growth controlled. At the same time, there should be reasonable limits on the scale of local government bond issues and they should be forbidden from forcing banks to issue loans. (5) The overall scale of investments should be

controlled. For a period of time we still can continue to issue quotas to departments and localities, but the main form should be to control the overall circulation of funds in society and the principal orientation of the circulation. At the same time, we should change the customary method of making large projects the first target believing that if we block big projects the scale of investment will not go up. If we control finances and currency, large projects will occupy the funds and small projects cannot go up.

In addition, we must reform the bank credit system. The loan quota controls formed by the mandatory plan have a great many problems. For example, in 1992 new loans nominally increased by just over 300 billion. Actually, outside the scale basket another approximately 100 billion was issued. Fixed asset loans nominally only increased by 71 billion and only made up 10.5 percent of the total society's fixed asset investments. Actually they were approximately 250 billion to 300 billion and made up about 40 percent of the total society's investments. How much has been invested in real estate cannot be seen from either the plan or statistical reports. Actually, no one knows. The greater part of the funds for high-profit real estate sales probably came from bank loans. The total volume of credit in 1992 did not cause an excessive problem. It was below the quotas set in the plan. But this credit system that is full of holes continues to go down. Not only is there no way to control the structure, the total volume also is extremely dangerous. The present problems are caused by delays in shifting the bank credit system. It is reflected in the fact that after banks take half a step toward becoming enterprises, they are in a difficult situation whether they go forward or backward and the state still can intervene in their credit activities, but it cannot totally interpose the necessary results. It is the natural consequence of the banks' acting on their own in credit not opening the main door but only opening the back door.

In view of that, in the near term we should adopt the following reform measures toward the bank credit system: (1) Organizationally separate policy funds from commercial funds. Policy funds would provide loans to low profit or high risk industries in accordance with state industrial policy. Commercial funds would be completely self-determined and the responsibility for taking on various levels of risk would be managed in accordance with commercial banking. (2) A fund for shifting large- and medium-sized state enterprises in the policy finance system or independently established, with banks and the finance ministry each providing part of the funds, would specifically solve those current problems. But there still would be a problem supplying the funds required by large and medium-sized state enterprises that hope to once again flourish after the system is reformed and technology is updated. (3) While accelerating agricultural product purchasing price reform and establishing a state protective pricing system, gradually shift agricultural product purchasing loans to normal commercial loans and change the procedure of using

administrative methods every year to allocate funds to purchase agricultural products and redeem IOU's. (4) The central bank can continue to issue general directives with a certain amount of flexibility to specialized banks on loan limits, but we should give even more serious consideration to such indirect control methods as developing the public market and rediscounts. (5) Further encourage the development of nonbank financial organizations and permit urban credit unions that are so equipped to be reorganized into commercial banks. (6) Control the average interest rates on bank and credit union deposits and loans and gradually free up the interest rates of other types of investment fund organizations to liberalize competition.

Thirdly, the public finance system must be correspondingly reformed. (1) We must make up our minds to eliminate the finance ministry inducing banks to make loans and forcing banks to register accounts. Only if it is truly the finance ministry's responsibility must the finance ministry take responsibility, and it should issue as many bonds as it has deficits. (2) We should accelerate price reforms in such industries as coal, oil, and cereal processing and force down subsidized losses. (3) The state capital construction fund should not be further increased and investment in the budget should gradually concentrate on non-profit industries. For example, water conservancy installations and ordinary highways and other infrastructure investments need support, so they should be transferred to policy fund credit funds. (4) According to the principal of fair tax burden and to straighten out taxation relations, we should establish a new strict taxation system. (5) At the end of 1993, the second round of financial contracts comes due. Before that we should closely attend to preparations and beginning in 1994, we should totally transition to a tax system that is divided between the central and the local.

We also must closely attend to reform of the foreign exchange control system. China has had a trade surplus three years in a row. If commerce and services are taken together, each year it has reached more than US\$10 billion. In a free exchange market economy country, this should cause a rise in the value of the country's currency. But China's exchange rate continues to fluctuate toward a devalued renminbi. This situation naturally is advantageous to the short-term growth of exports, but it does not help China to fully utilize its resources. From a little longer perspective, it also is not helpful to China's improved international competitiveness. Actually, China's foreign exchange resources have been seriously unused. Although since last year, state receipts of foreign exchange have declined, bank foreign exchange deposits and foreign exchange funds in the hands of enterprises and individuals have greatly increased. A reduction in state foreign exchange by no means indicates that there is a deficit in the international balance of payments, because the proportion of local, enterprise, and individual foreign exchange assets has greatly increased. The amount that the banks transfer to foreign banks or use in the purchase of foreign government bonds is huge, early exceeding that normally required

for a transfer reserve. We have nearly converted to a net capital outflow country, although, at the same time, we also are using numerous preferential measures to attract direct foreign investment and using harsh terms to strive for foreign loans. This use of foreign exchange for a developing country is extremely unprofitable. But there are profound conceptual and systemic reasons. For example, domestic enterprises do not want to borrow foreign exchange from domestic banks because it does not have the preferences of foreign funds. On the other hand, domestic banks do not dare to loan it, because enterprises often cannot pay back the principal and interest on time.

I propose adopting these measures: (1) Relaxing controls on the foreign exchange adjusted market, increasing the liquidity of foreign exchange, and permitting enterprises to issue foreign exchange bonds and type-B stocks in the country. (2) Openly permitting domestic banks to draw foreign banks into organizing international bank group loans for domestic enterprises. (3) At the appropriate time, merge exchange rates and make renminbi exchangeable in the country. In this way, the exchange rate for U.S. dollars could rise a little at first, but before long it could lower. (4) Further popularize general financial knowledge and eliminate people's blind faith in the renminbi. (5) Based on China's present developing status, we should maintain the international balance of trade essentially even or a little bit in deficit. This will help China to maintain a net capital inflow and can make much use of foreign resources and not let foreigners make much use of Chinese resources. At the same time, it also is helpful in giving China the initiative in international trade frictions. With the amount of national foreign exchange decreasing, increased imports should mainly be accomplished by relaxing import controls on localities and enterprises. State import tasks should be further reduced.

In sum, we must change a concept in our economic efforts. The key to controlling the composition of investment funds is not in the state directly controlling the amount of funds and foreign exchange, but in how much affect state policy methods can have on the amount of funds circulating in the whole society. The focus of control policies should not again be placed on mandatory planning and administrative examination and approval, but should be placed on opening up the market, introducing competition, and selecting preferential supports.

## INDUSTRY

### Output of Mechano-Electronic Products May 1993

HK1706142093 Beijing CEI Database in English  
17 Jun 93

[Text] Beijing (CEIS)—Following is a list of the output of China's major mechano-electronic products in May 1993, released by the State Statistical Bureau:

Item	Unit	5/93	5/92
Power equipment	10,000kw	36.61	185.49
AC motor	10,000kw	527.95	425.64
Industrial boiler	ton	8689	7173
Machine tool	10,000set	2.68	1.83
Including:			
NC machine tool	set	1013	431
Precision machine tool	set	90	105
Large machine tool	set	393	362
Automobile	10,000	12.98	9.12
Including: truck	10,000	5.95	4.33
Tractor (20hp/above)	10,000	0.45	0.64
Small tractor	10,000	6.82	15.26
Locomotive	set	83	67
Including: Diesel	set	61	50
Steam	set	2	3
Electric	set	20	14
Passenger coach	set	144	157
Freight wagon	set	2832	2204
Internal combustion engine	10,000kw	1013.4	811.2
Fishing ship		-	10
Civil steel ship	10,000 ton	12.34	17.00
Computer	set	32	17
Micro computer	set	8506	5216
Pocket calculator	10,000set	-	-
Color crt	10,000	73.94	69.80
Program-controlled switchboard	10,000set	67.87	11.21
Film projector	10,000set	-	0.07

## FOREIGN TRADE, INVESTMENT

### Articles Discuss Problems With Border Trade

#### Trade With Russia Enters 'New Stage'

93CE0559A Harbin HEILONGJIANG RIBAO  
in Chinese 10 Apr 93 p 1

[Article by Lu Changhong (4151 2490 1347): "Russian People Speak About Trade"]

[Text] A few days ago, this reporter interviewed fifteen factory directors, managers, and entrepreneurs from six regions and republics of the Russian Federation studying at the Harbin Enterprise Management Training Center. They gave some views on some current border trade problems.

#### Changing Eggs to Chicks

Si-te-lie-li-zuo-fu [2448 3676 0441 4539 0146 1133] (Assistant Manager of the Moscow Cadre Center): The Commonwealth of Independent States is a country with a large

resource for trickery and now a great many countries are crowding in to grab their business. Border trade between traditional trading partners Russia and China is entering a new stage. This stage is clearly characterized by barter trade becoming less and less and being replaced by large amounts of spot exchange trade. But there also is a great deal of difficulty with spot exchange trade between the two countries. A way out is to change eggs to chicks. That is for the Russian side to establish cooperative enterprises and process the raw materials that China needs into semi-processed products and then re-ship them into China to process finished products. This way they can save foreign exchange and can solve multiple problems such as import licenses and costs.

**Danilov (Russian Far East Research Institute translator):** Multinational channels of cooperation are very pervasive. China cannot always concentrate on raw materials. Introducing such aspects as talent, high technology, information, and crudely processed semi-processed products also are new ways of changing eggs into chicks. We have a large amount of information resources, but cannot find a cooperative partner.

#### Do Not Damage Your Reputation

**Nie-mu-cai-wa [3206 1191 6846 1216] (Moscow Cadre Center department head):** Since reform and opening up, China's image in the world has become greater and greater. All of the Russian people want to come to China to see. We all greatly admire you. But the quality of some exported products is low, creating a bad impression in Russia and definitely damaging China's illustrious image. I often hear some business enterprises reflect that the poor quality Chinese products are not just those brought in for an exorbitant profit by "wheeler dealers," but some have to do with companies. If this problem is not solved, it could seriously affect further development of economic and trade cooperation between the two countries.

**Ma-lei-qie-wa [7456 7191 0434 1216] (manager of a private store in Saransk, capital of the Moldova Republic [as published]):** The vast majority of the Chinese merchandise sold in our store is good quality and reputable. The refined sugar, can goods, shelled peanuts, and cosmetics are this way. But there also are some products that give citizens a very bad impression. For example, clothing—you wear it and it rips out; some is without buttons; leather jackets have one long and one short sleeve; red and yellow children's clothes when they get wet in the rain turn white; especially clothing zippers—you pull them and they break. We know that the Chinese concerned are already aware of this problem, because the lesson from bungled quality absolutely cannot be forgotten.

#### Two Major Problems

**Zha-yi-cai-fu [2089 0181 6846 1133] (Assistant manager of the Saratov—A-ge-luo [7093 2047 5012] Company in Saratov):** Two major problems restricting the development of border trade between the two countries still are



transportation and banking. When we do business with China, we cannot receive the goods in less than six months. And when the two countries do spot exchange business, the banks do not have professional accounting contacts and must go through third country banks. If these problems are not solved as quickly as possible, it will not be possible to accelerate border trade.

**Si-te-lie-li-zuo-fu:** In addition to these two major restrictions, there is an information blockage. Quite a few of us factory directors and managers when we came to China this time to study, could not find a cooperative partner. We understand that China also has a similar situation. Now we need a "marriage broker" so that the two lovers can ultimately become family.

#### Look at the Price and Lament

**Ma-lei-qie-wa:** When we go to the Chinese market, we see a great many products that we can only look at because the price is too high for us to endure. We see men's and women's woolen vest sweaters that are very beautiful and the quality is good and they would be very marketable in Russia. But because the price is high, we can only look at the merchandise and lament. If there were small profits and large sales, I think that it would not be hard for the two countries to do business.

**Ka-shen [0595 3947] (General trust economist in Krasnoyarsk's Western Siberian Metallurgical Repair):** I know that if the price is high frequently the partner will run. Spot exchange trade will be a principal form of cooperation between our two sides and we should solve the price problem. The consumption level of the Commonwealth of Independent States still is not high. The Chinese already recognize this point. Only when the price is lowered can trade increase. This gesture is indispensable to competition.

#### Sino-Vietnamese Border Trade Decreasing

93CE0559B Beijing ZHONGGUO MAOCU BAO  
in Chinese 5 Apr 93 p 1

[Article by Ding Dong (0002 2639): "Western Nations Compete To Advance on the Vietnamese Market—Sino-Vietnamese Border Trade Sinks to Low Ebb"]

[Text] According to a report from a Japanese publication, with the development of the Vietnamese economy, Western nations have sounded the call to advance on the Vietnamese market. They expect that Vietnam can become one of their "last markets in Asia."

Last February the United States announced a partial relaxation of the economic sanctions against Vietnam and rescinded the prohibition on United States enterprises' establishing administrative organizations in Vietnam and signing agreements with Vietnamese enterprises. Subsequently, two U.S. computer companies signed a contract with Vietnam to export computers to

Vietnam. The United States Government also permitted a U.S. consulting firm to establish a branch organization in Vietnam.

But because the United States economic sanctions against Vietnam still have not been totally rescinded, U.S. enterprises cannot yet invest in Vietnam. The two sides have already signed the agreement, but must wait until the economic sanctions against Vietnam are totally rescinded before it can be implemented.

Since last November, when the Japanese Government granted a loan to Vietnam, Japanese enterprises have been advancing on the Vietnamese market with great strides. Japanese enterprises will exploit Vietnamese petroleum resources and construct a cement factory in Vietnam, and the finance and insurance industries are preparing to establish branch organizations in Vietnam.

But because the Japanese Government takes into consideration that the United States still has not totally rescinded the economic sanctions against Vietnam, they can only provide Vietnam with commodity loans and the planned project loans still have not taken shape. At the same time, because there is no way to implement trade insurance and investment insurance, Japanese enterprises still cannot make great inroads in the Vietnamese market.

Because of France's former status as a suzerain state, its enterprises spare no effort in contending for the Vietnamese market. French president Mitterand recently visited Vietnam to accelerate French enterprises' inroads into the Vietnamese market. The French Paris National Bank and the French External Trade Bank already established offices in Ho Chi Minh City last year, and the French Lyons Credit Bank also established an office in Hanoi this January. A French automobile manufacturer plans to build an assembly plant in Vietnam and some large French enterprises are rather interested in orders from Vietnamese petroleum installation projects worth up to US\$1.3 billion and already are in active negotiations with the Vietnamese.

In sum, even if the complete rescinding of U.S. economic sanctions against Vietnam still needs to be put off for a while, Japanese, French, and U.S. enterprises are jumping the gun to enter and contend for the Vietnamese market.

China is Vietnam's close neighbor and the two countries undoubtedly have traditional economic and trade relations, but China is still behind Western nations in opening Vietnamese markets. According to information from a relevant Guangzhou economic department, the Sino-Vietnamese border trade that had been becoming ever brisker in recent years, since last September has ebbed.

Since normalization of Sino-Vietnamese relations, Vietnam expects that China can give economic support and investment and China has sent various types of economic and trade investigative groups to Vietnam, but

because of various restrictions such as resources, conditions, and the chain of foreign exchanges, not many agreements could be concluded. On the contrary, the Vietnamese are not very interested. But with the civilianization of border trade, a large quantity of Chinese merchandise has poured into Vietnam and the Vietnamese see this as somewhat damaging to their own enterprises and have adopted a number of measures to limit the Chinese products entering their territory, restricting the contacts of merchants from the two sides. Moreover, since 1 September of last year, they have stopped Chinese entrepot trade through Vietnam.

The list of Chinese products that the Vietnamese have announced restrictions on includes almost all of the staple products where China has an advantage on the Vietnamese market. At the same time, they also have limited exports of rice and copper to China by Vietnamese enterprises.

Beginning this year, with the Vietnamese establishing trade barriers, Sino-Vietnamese border trade has greatly declined. To restore the normal development of border trade between the two countries still requires mutual understanding and coordination from both sides.

#### **Foreign Patent, Trademark Applications Increase**

93CE0548C Beijing GUOJI SHANGBAO in Chinese  
1 May 93 p 1

[Article by Li Cai (2621 6846): "Foreign Patent, Trademark Registration Applications Up Sharply"]

[Text] Foreign patent and trademark registration applications took a sharp upward turn at the beginning of the year. General Manager Zheng Songyu [6774 2646 1342] of the China Patent Agency (Hong Kong) Co. Ltd., the body designated as the foreign patent and trademark agency by the State Council, told reporters that his company handled at least 50 percent more foreign patent and trademark registration applications in the first three months of this year than it did in the same period last year. This upsurge in a normally off season was totally unexpected.

According to statistics from the State Patent Office, a total of 67,135 patent applications were processed in China in 1992, 34 percent more than the preceding year, including 5,347 foreign patent applications, up 15 percent over the previous year. The United States, Japan, and Germany led the lack of foreign nations with patent applications in China, both in terms of total volume over the years and in terms of applications in 1992 alone. As of today, 284,518 patent applications have been processed by China. In 1992, there were 90,795 new trademark registration applications, an increase of over 60 percent compared to the year before. By late 1992, there were 366,202 valid registered trademarks in China, including 53,230 foreign trademarks. The number of applications by Taiwan firms has risen substantially. In 1992, Taiwan patent applications reached 3,391, an increase of 140 percent over the 1,353 applications in 1991, and trademark registration applications rose more

than 70 percent. Thus far, Taiwan firms account for almost 10,000 trademark registration applications in China, of which 5,000 have been approved. Zheng Songyu attributes the increase to two major factors. First, Taiwan investment has gradually been shifting from Southeast Asia to the mainland. Second, Taiwan businessmen are taking intellectual property rights more seriously now that the United States has again included it this year in its Super 301 list of nations for retaliation. As Taiwan began negotiations with the United States over this matter, Taiwan businessmen are taking greater pains to apply for patent and trademark registrations.

Attracted by China's favorable economic environment, foreign investors have been flocking to China in droves. In a move that has greatly interested foreign businessmen, the amended Patent Law and its implementation regulations went into effect on 1 January this year, expanding the scope of protection, tightening protective measures, and extending the period of protection. Zheng Songyu said that given the gathering momentum, foreign patent applications for the entire year may increase by 50 percent, with trademark registration applications surging ahead even more rapidly. The reason is that the amended Trademark Law, which took effect on 1 July, has broadened protection for service trademarks, defensive trademarks, collective trademarks, and brand names. In the past, one could not register a service trademark, so we have built up a heavy backlog. A good number of service trademark registration applications are expected this year.

Referring to China's accession to the General Agreement on Tariffs and Trade and the preparations that must be made in the area of intellectual property rights, Mr. Zheng Songyu said, "The Uruguay round of talks covers intellectual property rights, among other things. The Patent Law and its implementation regulations as well as the Trademark Law have been amended in light of international law. Not only have they further improved China's patent and trademark systems, but they have also basically raised our protection for exclusive patent and trademark rights to the international level. Since the issue of accession to GATT had already been taken into consideration when China amended the Patent Law and Trademark Law, current Chinese legislation is consistent with the terms under which China will rejoin GATT. The question is not that additional amendments are needed, but how to enforce the statutes." He said some foreign investors are eager to examine case law to find out how the courts would enforce the existing legislation. The courts should make case law public in the interest of openness.

#### **Foreign Antidumping Charges, Prevention Examined**

93CE0545B Beijing GUOJI SHANGBAO in Chinese  
6 May 93 p 1

[Article by Li Zhaofen (2621 5128 5358): "Need for Active Countersuits and Counterpleas Against Antidumping Charges"]

[Text] Your correspondent learned from the Chinese Five Mineral, Chemical, and Industrial Import-Export Chamber of Commerce that between 1988 and 1992 China antidumping charges were brought abroad against nearly 50 five mineral, chemical, and industrial commodities, some of them subjected to antidumping investigations in several principal sales markets.

Both external and internal reasons exist for China's export commodities coming under antidumping charges. Since the 1980's, trade protectionism has raised its head once again in some countries. During the 1990's, not only was there no abatement in various forms of trade protectionism, but it further intensified. Domestically, pricing problems were the main reason for dumping charges. Because of their lack of export experience, since 1989 many new foreign trade companies and enterprises having foreign trade operating rights have frequently set export prices that are at a variance with international market prices out of failure to understand foreign market and price requirements, and there have also been instances of low priced competitive sales.

Cut price competitive sales not only seriously disturb the foreign market for Chinese goods, but they may also cause foreign antidumping claims, and once goods are ruled to have been dumped abroad, a high antidumping tariff is levied. This causes extremely heavy economic losses for Chinese business concerns, and it may even force them to withdraw from the local market. Prevention of cut price competitive sales naturally requires better management of export work, first of all, as well as enhancement of attendant laws and regulations.

The point to be emphasized here is that the companies that have been accused should correctly understand the need to respond to a suit. Western countries regard antidumping responses to charges and counter pleas as a right and a duty of accused concerns for their own protection. Exporting concerns in Japan and elsewhere not only actively respond to charges, but they also file appeals in the courts of the accusing country. Sometimes, they also file an appeal with GATT accusing the administrative authorities in the country lodging the complaint of unfair and unreasonable rulings. Consequently, exporting concerns must actively respond to antidumping cases, courageously arguing strongly on just grounds. They must do everything possible to make the imprecise provisions of antidumping laws and regulations of all countries serve us in winning law suits, or use conditions relatively more favorable to China to halt antidumping cases. The authorities in charge in China's government will follow the principle of "the ones who respond to law suits are the beneficiaries," regarding goods accused of being dumped, taking appropriate administrative actions to protect the companies responding to suits. The Import-Export Chamber of Commerce also has responsibility for organizing and coordinating enterprises' responses to suits.

Once an antidumping case for a commodity has been accepted, persons must be sent to the accused country to

conduct an examination, checks and inquiries of ledgers, invoices, production records, contracts, and such pertinent cost prices conducted.

Prevention against foreign antidumping charges should be paramount. Enterprises involved in the export trade must understand international market production prices and the capacity of the market for goods that their enterprise produces, as well as applicable import and export trade policies, etc. They cannot export mindlessly without regard for international market realities.

## ECONOMIC ZONES

### Factories Leaving Shenzhen SEZ

93CE0533A Shenzhen SHENZHEN TEQU BAO  
in Chinese 2 May 93 p 2

[Article by Liu Shuquan (0491 3412 3123): "The Migrating Bird Effect—Reflections on the Departure of Shenzhen Factories"]

[Text] There is a phenomenon that careful readers perhaps have noticed. In the past two years, advertisements frequently seen in the *SHENZHEN*, such as "a certain enterprise is opening for business" or "a certain factory is going into operation," have become fewer and have been replaced by bigger and bigger "real estate" and "securities department" notices.

At an analytical conference at the end of last year on the shape of the Shenzhen economy, deputy chief of the municipal economic development office Zhong Yaohua [6988 5069 5478] said that contrary to the more and more frenetic Shenzhen real estate situation, the prices of factory buildings in the Shenzhen special zone are beginning to decline and one-fourth of the factories are empty. A large number of enterprises are deliberating moving out or have even begun to do so. According to incomplete statistics, more than 100 of Shenzhen's factories have presently moved out of the special zone.

People from economic circles have various views on this "departure of Shenzhen factories" that has just occurred in the last two years. Some people think that this type of "exodus" is unavoidable in Shenzhen's economic development. Just as in the past a large number of Taiwan factories "left the island" and Hong Kong manufacturers one after the other "moved north," after the economy develops to a certain stage, many low-grade, labor-intensive enterprises are unable to bear the ever increasing costs and are forced to move to low-cost areas.

In the last two years, the prices of such productive factors in Shenzhen as buildings, water and electricity have gone straight up. Residential housing prices especially have increased exponentially. But based on consumer market trends in the last two years, if enterprises maintain the productivity of two years ago, their gross profits definitely will decline. Shenzhen's Lanhai Electronic Company general manager Pan Zhiren [3382



1807 0088] figured for this reporter that only if Lanhai doubles productivity this year from last year can profits remain even with last year. So, with no alternative, they have to move out.

From an economist's perspective, investment should flow toward the places with the highest profits. This is the same as the migrating birds' flying to wherever the climate is most conducive to their survival. Enterprises also are this way. This migrating bird effect also is an important sign that the economy of the Shenzhen Special Economic Zone is entering a period of adjustment in its economic structure.

In just ten years, the success of Shenzhen's industrial production has attracted worldwide attention. The value of industrial output has reached 35 billion yuan. But one fact also tells us that Shenzhen's industrial structure has a severe problem. The excessive concentration of large water and electricity using low-grade, labor-intensive enterprises must change.

So, the municipal party committee and the municipal government have come out with a major decision: to make Shenzhen into a comprehensive, multifunctional, modern city led by advanced industry and supported by the service industry. Based on this goal, it is inevitable that Shenzhen's industrial enterprises will make adjustments in the structure and form of their production. Consequently, the municipal government has formulated a series of specific policies to encourage enterprises to develop high-technology projects and several high value-added, high performance enterprises have responded to the times.

Some people say that a major cause leading factories to move out is Shenzhen's worsening investment environment. Actually, last year Shenzhen set a record for attracting foreign investment. A large group of foreign firms one after the other invested in the establishment of high-technology enterprises in Shenzhen. This is just what Shenzhen had been dreaming about. For example, there is the Shenzhen Developmental Technology Company that just went into production at the beginning of this year. The output value and profits that this enterprise with fewer than 2,000 people creates far exceed those of labor-intensive enterprises with the same number of people. And Shenzhen enterprises more and more are feeling the pressures of survival. The desire for them to start knowledge-intensive high-technology industries has never been as urgent as it is now.

One flock of "migratory birds" flew out of Shenzhen and another flock of "migratory birds" flew into the special zone. Could this be a sign that Shenzhen's adjustment of the industrial structure is beginning to succeed?

As regards the enterprises moving in, the majority of the enterprises moved out the part that uses a lot of people, electricity, and water, but kept the design, development, and high-level administrative parts in the special zone. This objectively improves the intellectual structure of

Shenzhen's population and at the same time preserves the advanced status of Shenzhen industry.

The Shenzhen Special Economic Zone, a "tiny area" only 327.5 square kilometers, is taking on the role of "point man" in reform and opening up. Limited land and resources force Shenzhen decisionmakers to conscientiously consider how to make the most extensive use of the potential of this "hot piece of land." An important step in developing tertiary industry is for Shenzhen to move toward becoming a "regional financial center." Tokyo has "Ginza," New York has "Manhattan," and Hong Kong has the central ring. With the Pearl River Delta becoming one stretch of land like the eighteen cities of Los Angeles, it is hard to keep Shenzhen from being "pinched for land and pinched for funds." And in the last two years, the struggle for land of the industrial, commercial, and service industries has become one of the greatest headaches of the government.

An old general manager of a company figured for this reporter that the 50,000 square meters of factory buildings that he has in a rather busy district of Shenzhen make an annual profit of 450 million. But if he moved the factories to Bao'an, he could increase profits by 10 percent or more. In addition, if he converted the 50,000 square meters of factory buildings into commercial buildings, he could take in 25 million yuan or more each year in rent.

Entrepreneurs are shrewd. It is an unalterable result of the market economy that they will transfer their investments where the yield is the most generous. And if they are allowed, it also will be Shenzhen's new development area.

In recent years, many people have noticed the disparity between the coast and the interior. The departure of Shenzhen enterprises plays an objective role in support of the development of backward inland regions. The manager of a small Shenzhen company is thinking about moving his factory to some place in Sichuan. That place is setting off to rapidly blaze a trail and its principal leaders are totally receptive. Like Shenzhen in the initial stage, they welcome outside firms. The manager finds this extremely moving. He is just running a factory there to lower costs, but as a result, he is treated as a benefactor by that place. And there is a surplus of water and electricity there and labor is cheap and administrative policies are favorable. That manager should be grateful.

Certainly, the departure of Shenzhen's industrial enterprises is related to the favorable policies being implemented one after another by several inland places and the low efficiency of some Shenzhen government departments and this is a place where Shenzhen should improve. But in the final analysis, this phenomenon is inevitable in the great surge of the market economy. If we make good use of it, it will be a benefit to the country, to the people, and to Shenzhen.

## POPULATION

### Impact of Market Forces on Population Growth

93CE0561A Beijing RENKOU YANJIU  
[POPULATION RESEARCH] in Chinese  
No 2, 29 Mar 93 pp 7-8

[Article by RENKOU YANJIU Editorial Department:  
"Summary of Panel Discussion on Market Economy and  
Population Growth"]

[Excerpts] [passage omitted] The RENKOU YANJIU  
Editorial Department invited a number of young and  
middle-aged demographers in Beijing to a panel discus-  
sion on "Market Economy and Population Growth" in  
December 1992. [passage omitted] The following is a  
brief summary of this discussion's substance.

1. The overall impact of a market economy on population control. Most of the participating academics noted that a market economy might have a sharp short-term impact on population control. This would be mostly changes in certain restraint forces dependent on the traditional system, such as the certain weakening of administrative means under market forces, while other new means or methods of population control could not be quickly established or brought into play. This is how the "broken lines and networks and population dispersion" that has appeared in family planning in certain zones might be further exacerbated. The increase in population mobility might also add to population-control difficulties. But other scholars commented that China's market economy at present and even for five or more years to come will remain under the influence of the former planned economy and its corresponding economic and cultural setting, so that population control will certainly not be too sharply impacted. Population mobility would necessarily have two separate impacts: 1) Orderly. As the lifestyles of peasants who move to cities are essentially incorporated into the urban rhythm, there is certainly not much difference between their childbearing and that of city dwellers. 2) Low-level, including those far from cities. Large numbers of births among these people is certain, just as abroad and even in developed countries. Some scholars also remarked that the initial development of market forces and the rise of various competitive phenomena will restrain the marriage and childbearing behavior of most low-income families. China's surplus workforce will become a more glaring problem, with the former social responsibility for surplus-population pressure being partially or completely shifted to family and personal responsibility, which pressure will play a greater role in reducing the establishment of new families, keeping married couples from early and multiple childbearing, and promoting childbearing and population quality. As to the long-range impact of a market economy, the scholars were almost unanimous that a market economy would help in the long-run to control population and population growth.

2. The urban and rural impact of a market economy on population control. The participating academics were unanimous that China's dual urban and rural economic structure would mean that the changed economic system would have sharply differing impacts on population control in urban and rural areas. Most of the scholars held that the impact of a market economy on population control would be clearly sharper in cities than in rural areas. This is because since the beginning of rural reform in the 1980's, many peasants have been throwing themselves into commodity-economy activities so that, even though peasants are still far from having a commodity economy in quite a few places (such as certain old, minority, remote, and poor areas), the economies of most rural areas are quite close to the market system. On the other hand, rural community cadres and workstyles have a deep-rooted social and cultural setting, and the management means of rural organizations have clear planned-economy features, which will not quickly break up with the establishment of a market economy. So the impact of the changed economic system on population control will be relatively less in rural areas. And as past urban population-control success relied mainly on administrative force, market forces will make the former control system and workstyle unsuited to the new conditions, while it will be hard for the public to immediately change its childbearing aspirations, which will add to urban population-control difficulties. Employment-system reform in particular will weaken the force of the past enterprise and institutional use of administrative means of population control, bringing a rebound to the childbearing demand that relied on administrative means of restraint in the past. Some of the scholars went on to point out that in China's large urban zones, as the degree of socioeconomic modernization is higher, public marriage and childbearing ideas are sharply changed; in addition, there are restraining factors such as costs of childbearing, lowering the possibility of a birthrate rebound. But in certain medium-sized and small cities and towns in particular, the traditional system is more intact, the economic and social development level is clearly lower than in cities, and factors such as community structure, public marriage, and childbearing concepts are in a state of transition from rural to urban. In addition, small cities and towns certainly do not have high living standards, and the cost of raising children there is lower, so that population control in small cities and towns, particularly towns, is faced with the most severe challenge. Other scholars commented that as the market economy in the early 1990's will be in an initial stage of growth, the rural birthrate trend may see a replay of the early 1980's, i.e., a birthrate rebound. In fact, as the childbearing concepts of many peasants have certainly not changed, and China's past rapid drop in rural birthrate relied essentially on outside force, market conditions will mean that there is a possibility that the rural birthrate will take advantage of the external turning point to

rebound. Moreover, commodity-economy development will objectively reopen the possibility of phenomena, such as "mobile above-plan births" and "negotiated-price children."

3. China's population priorities for the 1990's. The 14th CPC Congress report pointed out that "family planning must absolutely not be slackened," with which view the participating scholars were unanimous. Some pointed out that as China's population would remain subject for a long time to pressures in areas, such as economics, resources, and environment, the job of controlling population growth should not change due to the development of a market economy. From a historical perspective, as all policies must remain relatively stable, our general population-control orientation not only will not change, but also must be emphasized closely and well, so that the key will be to introduce new effective control means and methods. Other scholars remarked that market forces, in both society and the family, would mean more attention paid to human-capital investment, which would make the population-quality problem increasingly evident. While our most glaring current problem is quantitative, an overemphasis on quantitative control to the neglect of population quality could leave us in a passive position in the next century. Other scholars pointed out that while population quantitative control is one aspect, a more important one is how to use existing human resources to convert preadjustment to postdevelopment, as population control is aimed certainly not at control for control's sake, but rather at socioeconomic development. In this sense, the optimization of population makeup also needs attention.
4. Recommended population-control and -growth countermeasures for market forces. Some academics pointed out the need to see the difference between production plans for population and for commodities. Material-production regulation is essentially an economic regulation, while population regulation is affected primarily by natural influences, with economics and other components playing only an indirect role. Another crucial difference is that once children are born, the problem of their being abandoned by the market certainly does not exist. This means that we must establish a new population-control thinking suited to the new forces. Some scholars emphasized that future population control should introduce more legal mechanisms. Planned economy depends mainly on administrative intervention, while market economy relies mostly on legal safeguards, so that it will be only by gradually improving our legal-restraint forces that we can make our population control more effective. Others disagreed with this view, remarking that legal mechanisms should not be the major means of control as, from a social-control perspective, laws are to control socially deviant behavior, so are directed at a minority. As our current above-plan births are certainly not a matter of social deviance by just a few, further population control should be based on a stronger comprehensive control

capability (naturally including the use of legal means), particularly the use of the role of economic means. Other scholars disagreed with the deliberate emphasis on weakening administrative control over family planning, recommending instead mostly the introduction of new restraint forces, with the role of administrative means weakening naturally once the new forces are introduced and take effect. Others noted that in population control, while family interests should certainly be subordinate to national interests, the state that represents national interests must also fully consider family sustainability. A key current task is to improve our family planning methods to enhance the guidance role of families in controlling population growth. Others noted that the varying impact of market forces means that different consideration must be given to urban and rural population-control countermeasures. As to China's overall society, it will be impossible for a developed market economy to be achieved in the short-run, with inequality of various opportunities continuing to exist, particularly rural areas enjoying unequal opportunities, and many social safeguards and welfare measures not being fairly administered to peasants, which naturally affects population control. So we should give family planners more opportunity to contribute to population control. Some scholars went on to point out that countermeasures could not be found by simply seeking within family planning, so that we must as quickly as possible bring population-control policy into line with population-growth policy, in order to coordinate population growth with socioeconomic development.

#### Causes, Effects of Early Marriage in Countryside

93CE0562A Beijing FAZHI RIBAO in Chinese  
6 May 93 p 3

[Article by Zhou Jiatao (0719 0502 3447): "The Bitter Phenomenon of Early Marriage and Childbearing"]

[Excerpts] [passage omitted] In the countryside, marriages before the legal-marriage age and the accompanying early-childbearing phenomenon occur frequently, having become a major social problem in rural areas. The relevant statistics show that in certain of China's rural areas, the phenomenon of early marriage and childbearing is growing increasingly severe, making up 20-50 percent of all marriages, and over 80 percent in a few areas. The ratio of early marriage to the same age-group rose from 3.23 percent in 1980 to 5.86 percent by 1989. By 1988, early marriages involved 7.1 million people throughout China, with the population resulting from early childbearing reaching 1.5 million, which figure had reached 2.95 million by 1989.

A rural social fact-finding team from a certain county in northern Jiangsu recently surveyed young people married since 1985 in this county's two subordinate townships and villages, discovering in one village that 141, or 56 percent, of 254 married youths were early marriages and, in another village that 70 percent of the 32 young



couples that were married during the 1993 Spring Festival were under the legal marriage age, with the youngest male being only 16 years old and the youngest female only 15. The B-County Civil Administration Office's desk was spread with figures almost unbelievable to this reporter: an all-county checkup in August 1989 had found that 4,020 "couples" of the county population of 500,000 had been illegally married without registering since 1986, with early marriages since 1989 alone involving 1,090 couples.

Why has this wave of early marriage in the countryside and its inevitably resultant early childbearing been growing in intensity? We did a poll analysis directed at almost 50 villages and groups in 15 townships and towns in eight counties (districts) in Y City, discovering the following major causes of early marriage and childbearing.

—Why is there a legal marriage age? Why are there illegal marriages? They are due to ignorance!

In certain rural areas, dissemination of the law has not yet truly reached to all households. Since the production-responsibility system went into effect in the rural areas, many village-group cadres have been so busy building up their personal family fortunes that they have neglected to publicize laws and regulations, such as the Marriage Law and the Civil Law. Many peasants are clear only about (tax) evasion, theft, burglary, and forcible seizure being crimes, while knowing absolutely nothing about the substance of the marriage laws, or even what the legal marriage age is and what illegal marriage means. Due to China's thousands of years of being accustomed to public recognition of marriage through the holding of a marriage ceremony, with the psychological custom that must be pursued being "a marriage ceremony by parents' order that is arranged by a matchmaker and is satisfactory to both parties," many people often overlook the legal formalities of registering and getting a marriage license. [passage omitted]

—The lack of knowledge about sex, and the poison of pornography.

While rudimentary sexual-physiology knowledge was included in junior high school "Physiological Hygiene" courses in 1972, the poll found that essentially no teachers in rural high schools were teaching it, with many schools censoring this material or making students study it on their own, and some even making students tear out the chapter on sex education. In addition, the feudal superstitious mindset and severely conservative ideology in the countryside make it hard and embarrassing for parents to bring up the matter of sex education with their own children.

Of 84 male and female students in a certain rural high school who filled in answers about the meaning of terms, such as involuntary ejaculation, menstruation, and pregnancy, 80 percent left the spaces blank, with only 6 percent responding basically correctly, and 10 percent of answers being irrelevant.

The severe lack of sex education leaves society open to pornographic poisons, such as pornographic books and magazines and obscene videotapes. In addition, the scenes of hugging and kissing in movies and on TV stimulate certain rural youths' senses, luring many onto the path of sex crime. Meanwhile, much early marriage is left uncorrected and made the best of. [passage omitted]

—Traditions! Feudalism! These are longstanding.

Many rural adults are subject to the old customs of the sooner a son is born the sooner one gets rich, and the sooner one takes a wife the sooner one gets a son. Some areas are still subject to feudal superstitious traditions, such as no marriage for widows for one year and during three years of mourning, which spur some who had not considered marriage to take advantage of such bans to become early bridegrooms and brides.

A Miss Yao who works as a fundraiser for a printing and dyeing mill in a certain city and who was just 19 years old in 1993, had become close for less than 2 months with a boyfriend, a Mr Xu who is a phys ed teacher at a teachers college. Unfortunately, Mr Xu's father suddenly became seriously ill, and the family, while busily getting him medical treatment, was also preparing for his son's marriage. This was because if the father died, the marriage would be banned during the three years of mourning. Would this not have delayed the passing on of his genes?

—Covert mercenary marriage.

While no textual research exists on the exact year in which mercenary marriage began, the bride-price is certainly of ancient origin. So the parents of some brides try to keep up with the times and fashions by asking ever-higher prices, which are hard for certain bridegroom's families to bear. Some couples who are truly in love use the method of "what's done can't be undone" to cohabit and get pregnant before marriage, forcing the bride's parents to recognize such de facto marriage, which is an inducement to early marriage.

—Marriage restraints: Old ones have been sapped while new ones have not yet evolved.

Before the rural production teams were broken up, marriage licenses were needed to transfer residence registration and grain and cooking oil credentials, without which there were no grain rations. But since the production-responsibility system went into effect, cultivated land has been contracted by household, which has increased the number of people but not the amount of land, with burdens, such as compulsory labor, collections, and various public welfare fees, all being apportioned per capita. So many young people who want to get married do not "bother" to go through the legal marriage formalities, which brings loopholes to rural marriage control, and creates a natural environment for the proliferation of early marriage and childbearing.

### The Bitter Effects of Early Marriage and Childbearing

Early marriage and childbearing bring many disadvantages and dangers to society, families, and individuals. 1) Early marriage and childbearing disrupts the implementation of the "Marriage Law," and violates national family planning policy. Most of the children born to early marriages have neither residence registrations or grain provisions, with such "secret children" overburdening society once they grow up. The data provided by a concerned unit in H Province show more than 10,000 children born due to early marriage in this province in the last three years. 2) Early marriage and childbearing result in neglect of studies and futures. 3) Early marriage and childbearing severely endanger the health of young people. As medical science holds that mature development is reached only at the age of 22 for males and 20 for females, early marriage not only causes premature senility, but also makes young females extremely subject to GYN diseases, such as cervical cancer and vaginitis. 4) Early marriage and childbearing result in more deformed children. According to the monitoring of genetic defects among 35,000 newborns in a certain province, the newborn-defect rate is only 5.51 percent for childbearing women in the 20-24 age group, but 10.20 percent for those under 20. 5) Both partners to early marriages are intellectually immature and emotionally unstable, which is very likely to cause divorce and other marriage problems. According to People's Court statistics for a certain county, 74 of its 325 divorce cases in 1990 involved marriages before legal marriage age. These divorcees' grounds are very simple: "At the time I was only a thoughtless teenager, but now am older and more sensible, so cannot continue in such a marriage." [passage omitted]

### Demographers Warn of Declining Population Quality

93CE0567B Lanzhou GANSU RIBAO in Chinese  
9 May 93 p 4

[Article reprinted from HUASHANG SHIBAO: "Chinese Demographers Sound Alarm—More Illiterates and Less Intellectuals Will Appear in Our Next Generation"]

[Text] "With more illiterates and less intellectuals, the Chinese population in the next century will decline in quality!" This is an alarm to the government sounded by Chinese demographers recently.

Experts say that this worrisome phenomenon unveiled the drawbacks of the "uniform" rule of "one child for each couple" applied to family planning. They propose that intellectuals be allowed to have a second child. As for those who are illiterate or semi-illiterate or have genetic physiological defects, strict control should be exercised on their second childbirths. In any case, third childbirths should be prohibited. Only thus, they say, is it possible to reverse the trend of "polarization" of our population.

It is reported that last year China's population growth rate was the lowest compared with the records of the past few years. As everyone knows, however, the "uniform" family planning method has given rise to the following phenomenon: The urban population has declined. Intellectuals even have no posterity. "Single nobles" and "two-member worlds" have appeared in the sectors of higher education and scientific research. In contrast with this, "extra-birth guerrilla force" made up of illiterate and semi-illiterate couples keep growing in the countryside. In China's rural areas, the rate of second childbirths is as high as 88.85 percent, and it is nothing new for a couple to have five or six children. Dwelling on the advantage of allowing intellectuals to have a second child, experts say that this will not only raise the quality of our population and provide a competent work force for the next century, but also create an atmosphere of respecting knowledge and talent in our society. Their proposal has reportedly received the attention of China's population control authorities, and a feasibility study is under way.

### Symposium on Population Development Trends

93CE0567A Beijing ZHONGGUO RENKOU BAO  
in Chinese 17 May 93 p 3

[Article by Long Shanwei (7893 3790 1232): "The Market Economy and Population Development Trends—Sidelights on a Symposium About China's Population Development Prospects and Policy"]

[Text] Recently a symposium was held in Beijing to study and discuss China's population development prospects and policy. Over 80 representatives attended the symposium, including demographic experts and scholars as well as family planning workers from various parts of the country. Animated discussions were conducted on "the relationship between population and the economic environment and the question of population development and control."

1. The Socialist Market Economy and Population Reproduction. The representatives expressed the following opinion: China's population reproduction is presently undergoing a change from the transitional mode marked by numerous births, a low mortality, and a high natural growth rate to the modern mode of low birth, mortality, and natural growth rates. To complete the change to the modern mode, China's population reproduction should be put on the basis of the socialist market economy. Two measures—market regulation and planned regulation—must be adopted simultaneously to control the population. Most representatives believed that socialist market regulation plays a basic role in regulating the reproduction of population. This refers to the process by which the reproduction of labor force is regulated by the market. First, the process of production and reproduction of labor force is carried out through the market's role in regulating the consumer goods needed by laborers and their dependents. People's consumption level has a direct influence on their desire to have children, thus

causing the population to grow or decline. Second, market regulation prompts enterprises to upgrade their technology and raise their labor productivity. This means a change in their requirements for the labor force. With developed technology, they need fewer but better laborers. The ultimate effect of this is a drop in the birth rate. As a result, the whole process of population reproduction is affected, and its mode changes.

**2. The Market Economy and Shift of Emphasis in the Population Development Strategy.** As pointed out by comrades at the symposium, during the new period, that is, under the socialist market economic system, the focal point of our population development strategy should be shifted from quantitative control to qualitative improvement and structural adjustment. We should use the method of adjusting the population structure to achieve the goals of effective control of the number of our population and improvement of our population quality. This is necessary for our population control work and for further developing our socialist market economy. As for how to effect this focal-point shift, the experts and scholars suggested that breakthroughs be made in the following areas:

- Population control should be incorporated into the urbanization program through the reform of the system for "changing residents' status from farm workers to nonfarm workers."
- While establishing a scientific macroeconomic development strategy, we should boldly liberalize and reasonably guide the migration and flow of the rural people.
- Theoretical study on population structure should begin at an early date so that precaution may be taken before problems arise.

**3. The Market Economy and Population Mobility.** Some representatives pointed out: In recent years the floating population seems to have become a term with a special meaning. Associated with this term are "mass exodus" and "fleeing for life." Anyway, they do not give people a good impression and have no positive meaning. After all, what position does population mobility hold in the market economy? The representatives probed into this question and said that there is no denying the fact that the development of the market economy will greatly increase the floating population, and the flow of large numbers of rural people into cities or from one rural area to another will cause increases in transportation, housing, public security, and other problems. On the other hand, however, they said that the positive role played by the floating population in the market economy should be affirmed. At the initial stage of the market economy, an increased floating population will help invigorate the market and boost income. When the market economy is well developed, modern facilities will provide accommodations for the floating population. Currently, the floating population has merged into the modern way of life and become a significant part of it.

With the development of the economy, division of labor in modern industry is characterized by an increasing degree of specialization, and cooperation between different regions is becoming closer and closer. Under these circumstances, the flow of population is increasingly frequent and important and has become a signal of further economic development. On the other hand, new developed regions have to absorb some floating population to meet their needs in production and construction. In China, the problem is that too many rural people are swarming into cities with the same destinations. They have far exceeded capacity in the newly developed regions, resulting in an inharmonious situation. With the deepening of the reform and the drive for opening, however, there will be more new developed regions and open cities. Accordingly, the destinations of the floating population will scatter, and there will not be so many people going to one place. This will not only lessen the pressure caused by the floating population on some regions, but will help promote their development. The pressure on society caused by improper flow of people is attributable mainly to the immaturity of the market economy, imperfection of the law, and unsoundness of the management mechanism. With the continuous deepening of economic development, we will be able to control and solve these problems. As for the extra childbirths among the floating population, this is a new challenge to the family planning work. It is necessary to adjust our management mechanism for family planning to meet the needs of the new circumstances. In the long run, the development of the market economy will radically change the people's attitude toward childbearing. On the whole, the floating population, as an integral part of the development of the market economy, will help control the population growth.

**4. New Problems on Population Control Under the Market Economy.** The representatives believe that the deepening of the reform and opening drive and the fast development of the economy have brought about a change in some people's viewpoint about childbirths and instilled a refresh vitality into China's population development. However, new circumstances and problems have also cropped up. Specifically, these include the following: 1) The population in urban areas is complicated. Questions such as the renovation of old cities and the scattering of relocated residents have increased the amount of family planning work. On the other hand, the change in the operational mechanism in state-owned enterprises has resulted in a reduction in management personnel and, accordingly, weakened the family planning work. The current employment system allowing job hunters to choose their work and enterprises to choose their new employees and the efforts made by enterprises to optimize the organization of their labor force by keeping the superior and eliminating the inferior have led to an increasing number of jobless people. Meanwhile, more rural people are going to cities to buy houses, creating an increasingly serious phenomenon of people not residing in their registered locations of domicile. All these factors make it difficult to have a good grip on the



family planning work in both urban and rural areas. 3) [as published] At the initial stage, the market economy will have an impact on population control, and children will become highly cherished. This will revive the idea that more children mean greater happiness. The traditional idea about having children plus people's increased income may lead to extra childbirths. 4) With economic development and the flourishing of township enterprises, the problem of environmental pollution is becoming increasingly serious. 5) With the expansion of the economic market and the increased need for unskilled laborers to engage in production, more rural children have discontinued their education. Besides, some incorrect ideas will affect the improvement of China's population quality. 6) While a market economy is gradually built up in our country, the present population-control mechanism will obviously become inefficient. It will be increasingly more apparent and important that we should rely on comprehensive social measures for our population control.

## AGRICULTURE

### Update on Grain Price Reform in Sichuan District

93CE0479A Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 3, 15 Mar 93 pp 35-36

[Article by Jia Kecheng (6328 0344 6134); edited by Li Yumou (2621 1937 5399)]

[Text] The district of Daxian is located at the southern foothills of the Dabie Shan in northeastern Sichuan province, with 13 counties or towns under its jurisdiction. It covers 30,832.23 square km, comprising 5.4 percent of the total provincial surface. About 90 percent of its population of more than 9 million are peasants, with the remaining 10 percent engaged in nonagricultural work.

Grain harvested in Daxian adds up to 1.3 to 1.4 billion kilos yearly. Of this, 500 million kilos are sent out of the district, 400 million kilos are sold, and 400-500 kilos are surplus grain. Daxian is one of the important grain production districts in Sichuan province, and its fixed quota of grain for purchase comprises 10 percent of that assigned the province.

#### I. Conditions Following Reform

Beginning on 1 November 1992, when the sales price of grain in Daxian district was relaxed, state-operated stores canceled their pre-planned prices for grain they supplied, and sold grain at a negotiated price. The price was different from that for grain sold on the market by the peasants and private businesses. For example, before reform opening-up, each 0.5 kg of husked rice (hybrid, polished long grain nonglutinous rice, good quality) sold for 0.37 yuan at state-operated stores; after reform, for 0.45 yuan, an increase of 8 cents. But the market price ranged between 0.42 yuan to 0.45 yuan, and lower than the negotiated price.

After grain price reform, state workers (including those working in collective enterprises) each received a 2-yuan supplement to their monthly wages from the county treasury. Industrial and commercial enterprises also gave their workers a 2-yuan supplement, the cost for which was added to the product's cost. Surplus food coupons held by district residents became invalid, and were no longer redeemed. After grain price reform, the operation for marketing grain that was a monopoly of the state food stores became a diversified operation run by the state stores, collectives, and private parties.

After grain price reform, market conditions became more settled, and the people were relieved, attesting to the reform's success.

#### II. Reasons Why Reform Was Successful

1. The gradual rise in grain prices is due to the good planning done before grain reform was introduced. Grain price reform in Daxian district went through three stages. The first occurred in May 1991 when the overall sales price that had not changed at all in several decades underwent change. The second stage took place in April 1992 when the state raised the market sales price of grain again until it reached the quota purchase sales level, thereby resolving the long-standing contradiction of reversed roles between the market sales price and the quota purchase price. Because of price rises on these two occasions, the state monopoly sales price for grain basically approximated that of the market price. Following reform in grain pricing this time, the price for 0.5 kg of the state brand of polished long grain nonglutinous rice (the negotiated sales price) is now only 8 cents higher than the state monopoly price before it rose. The difference is comparatively small, which makes it easier for the people to accept.

2. A good grain harvest provides a somewhat better foundation for goods and materials. Grain output in the Daxian district has been abundant in recent years for several years in a row, with the state storing a considerable amount of the yield. The grain stored by the Daxian District Grain Bureau is enough to meet the needs of the district for seven years. With this amount of grain on hand, the people can rest assured. It is not likely for problems of grain shortage to appear after grain price reform has been initiated. With the state guaranteeing a supply of grain for the people, in a stable market grain prices can drop.

#### III. Important Significance of Relaxing the Market Price for Grain

Relaxing the market price for grain is reforming, on a large scale, the grain supply system as practiced in China for several decades. It is an important step of great significance in implementing a socialist market economy.

1. Various subsidies that were needed because of the high fixed quota purchase price and low market price for grain were resolved. In the past, the state had actually

provided too many subsidies to food grain enterprises engaged in grain processing operations. These were subsidies compensating for the difference between quota purchase and market prices, cost subsidies, storage subsidies, interest subsidies for loans to pay goods, shipping subsidies etc., which amounted to a situation of "endless detail for the expert and numerous questions for the novice." Once the market price for grain was relaxed, those related subsidies disappeared.

2. Great savings in human and material resources are realized. The way various subsidies had to be factored in the past required using great amounts of human and material resources. Once grain prices were relaxed and subsidies were eliminated, operating enterprises were able to save on a large volume of human labor and material resources.

3. Enterprise operation and management are improved. The unreasonable pricing structure which generated losses for enterprises was not conducive to improved enterprise operation and management. With price relaxation, grain supply adjusted to market demand, and the state no longer had to provide subsidies to cover losses. From this point on, enterprises no longer had state subsidies to fall back on, and they needed to depend on their own efforts to develop. This feeling of uncertainty on the part of enterprises actually strengthened their feeling of responsibility.

With grain prices relaxed, grain enterprises operating as sole monopolies become diversified operations, competing in areas of pricing and service. Competition has been conducive to enterprises changing their attitude towards service, and improving their facilities for the convenience of their customers. In the past, when state-operated grain stores were monopolies, grain was like "the emperor's daughter who did not have to worry about getting married." Such stores were too few, it was difficult for the people to buy grain, and the poor quality of service were all problems that never got resolved over a long time. Now, grain stores operated by private individuals sell the grain and even deliver it to homes. As the result, the poor service attitude found in state-operated enterprises and the poor setup of their grain stores have had to change. Problems never resolved over the years are quickly resolved.

4. Politics is separated from business in grain agencies. In the past, there was no separation between politics and business enterprises. Now, grain enterprises must be independent and become economic entities truly responsible for their own profit and loss by moving toward the market and finding their existence and development in market competition.

#### IV. Existing Problems

1. A great drop in the sales volume of grain by state-operated stores. After 1 November 1992 when grain prices

were relaxed, the sales quota of the Daxian municipal grain store dropped 90 percent, and its workers were not paid their wages. Sale of grain had been a monopoly operation for several decades, and the workers and leadership at grain enterprises had been used to a system of planned management which ate away at the state treasury through subsidies given them. Now they have the rug pulled out from under them, "the state no longer cares and they are weaned," to struggle for themselves, loss or profit being their own responsibility. It has not been easy for them to change ideologically, so these state-operated stores have been experiencing operation and management difficulties.

The reasons for a drop in sales volume at state-operated stores are many, but the important ones are poor grain quality and high prices. Another reason is the illogical setup in the food stores which make it very inconvenient for people to buy grain.

2. The old management system not suited to requirements of the new situation. Under the old management system in the past, grain enterprises only conducted the sales operation, grain prices were determined by the grain pricing authorities, and losses sustained were subsidized. The enterprise operators were not concerned with money, nor with prices. After grain prices were relaxed, why should prices at the state-operated stores be higher than market prices? One of the reasons is that pricing is determined by some higher authority. With relaxing of grain prices, any money received above the negotiated sales price is divided equally between the enterprise and the treasury. For example, if the sales price for 0.5 kg of grade II rice is raised from its original price of 0.37 yuan to 0.45 yuan, a price increase of 8 cents, 4 cents will be kept by the enterprise, and the other 4 cents will be turned in to the state treasury. But the same grade of rice is sold on the market for about 0.43 yuan, lower than the state price. The reason for this problem is due to the fact that while grain pricing has been relaxed grain prices are still determined by a "price-fixing" office at a higher level, and grain funds are still handled by the state treasury in the old system of monopoly management which has not undergone complete change. Grain enterprises must request that such an old and illogical management system be changed.

#### V. Several Suggestions

Colleagues at grain agencies agree that relaxing grain sale prices was necessary and workable. But changing from a planned management system to a market economy is not so easy, and a transitional period is needed. They estimate that this transition requires roughly two years. During this two-year period, the state should set up some supportive measures for them, so China's state-operated grain enterprises can undergo transition from a planned management system toward a market economy.

To help some grain enterprises overcome their temporary difficulties, the Sichuan provincial government has adopted many policies favorable to them. It eliminated the agricultural development fund, the storm hazard fund, energy resource development and road construction funds, and other not budgeted regulatory funds that had been shouldered by the grain enterprises. Enterprises were allowed to retain their profits, were exempt from all taxes and fees, and were charged standard rates for interest on loans borrowed for technological improvements.

In addition, the grain enterprises also had the following suggestions:

1. The state should not adopt the same cut-and-dried policy toward grain enterprises everywhere throughout the nation, but apply different emergency measures toward different regions, based on their local conditions. It should pay more attention to those enterprises with greater problems.
2. They hope the state will help to resolve this baggage of loss incurred and carried by the grain enterprises for several decades, when the enterprises depended on the state treasury for their livelihood, enterprise capitalization was difficult, buildings and facilities were broken down and old, and networking contacts were few. In some places where facilities had to be rented, no money was available to pay the rent.
3. No one thinks the source for the grain improvement fund is stable. Retired enterprise workers used to be supported by the state, but now it is the responsibility of the enterprise itself and paid for from the grain improvement fund. Some old colleagues nearing retirement feel there is no assurance for their livelihood after retirement, and hope the state will take care of them then. How will the limits for a retirement policy for senior workers be determined? Should pensions of workers entering this work force in the 1950's still be assumed by the state? At any rate, it is better that different policies and approaches be taken for different workers.
4. The losses "posted" by enterprises approved by the treasury should be resolved by departments of finance on all levels as soon as possible.
5. To meet demands of the market economy, grain enterprises should really operate independently, managing grain supply and demand as well as its cash flow aspects, and change the old method where the enterprise only sold grain and the finance departments managed the money. At the same time, grain enterprises should have the autonomy to determine the price of the grain they sell, for in a market economy, the sales price of grain cannot be rigidly set, but follow the market. Only in this manner is it possible to change the illogical phenomenon where grain prices in state-operated stores can be higher than those in the market.

### Investigative Report on Cotton Market

93CE0424A Beijing ZHONGGUO WUJIA [PRICES IN CHINA] in Chinese No 3, Mar 93 pp 10-12

[Report by Zhao Songwu (6392 2646 2976), affiliated with the Pricing Bureau in Guanyun County, Jiangsu Province: "An Investigation of Cotton Production, Purchasing, and Sales"]

[Text] In an investigation of cotton-market development, I recently visited Guanyun County's seven townships, nine cotton-purchasing (-procurement) centers, and three cotton-ginning mills. The following is my superficial understanding of 1992 cotton production, purchasing, and sales, and 1993 cotton-production prospects.

#### I. Cotton Production, Purchasing, and Sales Status Quo and Trends

In the past dozen years or so, cotton production has experienced "two ups and downs," from low in 1977 to the peak in 1984, and from a low in 1987 to another peak in 1991. Current cotton production, purchasing, and sales conditions are as follows:

1. The area sown to cotton will be down sharply in 1993. Jiangsu Province ended in 1992 its price supports of 30 yuan per 50 kg for cotton production development, while localities also ended other preferences, such as incentives for cultivating cotton instead of grain, with the cotton price from 1990 to the present remaining at 300 yuan per 50 kg (for standard grade 3.27 lap-waste cotton). Meanwhile, higher prices for agricultural capital goods pushed cotton-cultivation costs up, with net output value per work-day and net income per mu-cost both down, which have dampened peasant initiative for cotton cultivation. Survey projections are that cotton farmers throughout Guanyun County will pull out and switch to cultivation of other crops on over 30 percent of cotton fields in 1992, meaning that 1993 spring cotton planting will be down from 200,000 mu in 1992 to about 130,000 mu.
2. Cotton operators have forced down grades and prices. Due to the bumper cotton harvest in 1991 where supply exceeded demand, the cotton-spinning sector acted in its own interests by intentionally violating allocated-responsibility plans through selective purchasing to force prices down, with cotton and flax companies in all areas cutting prices for competitive sales, pushing cotton operators to force down grades and prices in their 1992 cotton purchasing. An on-site survey of the nine cotton-purchasing centers finds that peasant sales of unginned cotton to the state have been forced down an average of one grade and 2 percent standard-weight agricultural-points-rating, including some supply and marketing cooperatives where purchases of 120-jin unginned cotton sales to the state by peasants have been forced down 8 percent standard-weight agricultural-points-rating and one length, with prices being forced down to 30.38 yuan. The three county-level cotton-ginning mills have forced down



unginned cotton delivered by grass-roots purchasing centers an average of 1.5 percent standard-weight agricultural-points-rating. In the county's 1992 cotton purchasing, grades one and two were discontinued, grade three became the top grade, grade four was blocked, and grade five became the leading grade, making 1992 Guanyun County's lowest year in a dozen years or so for cotton grade and length.

3. Cotton-purchasing funds are short, bringing a replay of the iou phenomenon. The oversupply of cotton in 1991, for which the cotton-spinning sector intentionally adopted a policy of "two delays" (delayed implementation of allotted plans and post-allotment payments) and "two forcedowns" (forcing down grade and length through selective purchasing), made it impossible for county-level cotton and flax companies to sustain their longstanding burden of overstocking, so that they could only lower grades for competitive sales, and experienced a slow fund turnover. By the time Guanyun County's cotton and flax companies began their 1992 cotton purchasing, there were still over 100 million yuan of cotton sales payments outstanding, creating a shortage of cotton-purchasing funds in 1992, and a widespread recurrence in cotton-purchasing throughout the county of the iou phenomenon.

4. Cotton markets are in disorder. As Jiangsu ended its 30 yuan per 50 kg cotton-production price-supports, in addition to the severe forcing down of grades and prices and "issuing of white slips" by supply and marketing cooperatives when purchasing, many cotton farmers would rather sell less to the state and more to cotton dealers, leaving much cotton flowing into the hands of cotton dealers. Many townships have seen the appearance of the purchasing form of "joint public and private," in which cotton is purchased by cotton dealers, but delivered to the cotton-ginning mills with a "takeover settlement document" in the name of the supply and marketing cooperative, with the cotton dealers being responsible for the raising or lowering of items, such as cotton grade, length, and standard-weight agricultural-points-rating. This enables supply and marketing cooperatives without expending any labor or money to acquire advantages, such as purchasing-agent commissions, packing charges, and cotton-reward commodities, while cotton dealers brazenly sell their purchased cotton, earning illegal profits through forcing down grades, weights, and prices. Ever since the 1992 cotton went on the market, cotton dealers have been scurrying about everywhere, disregarding state policy and quality standards, bringing chaos to grading, mixing things up, and forcing purchasing and sales, with cotton inspectors in supply and marketing cooperatives and cotton-ginning mills often being subjected to threats and pestering, so that markets are in disorder.

5. Cotton supply and demand conflicts are becoming increasingly sharper. In 1992, Jiangsu's Huaibei district suffered a sustained drought during June and July, severely affecting its summer-cotton growth, a 16-force typhoon at the end of August, destroying most of its spring cotton bolls, and an unbroken spell of wet weather in September, with not enough sunlight and additional boll rotting, so

that its 1992 cotton output and quality were both correspondingly down. The relevant statistics on Jiangsu's 1992 cotton purchasing show 500,000 dan shipped to other provinces, 200,000 dan exported, about 8.5 million dan spun in Jiangsu, and about 650,000 dan going for wadding and other cotton uses. According to the provincial textile department's plans, Jiangsu will need 13 million dan of cotton or even a little more to ensure its production needs for the Eighth Five-Year Plan. The relevant estimations are that Jiangsu's 1992 cotton-purchase volume was about 7 million dan, down about 4 million dan from 1991. Guanyun County's purchase volume was 548,000 dan in 1991, but estimated to be only about 300,000 dan in 1992. This made it very difficult for Jiangsu to fulfill its assigned guaranteed base of 380,000 dan of cotton to the city of Lianyungang (which uses only cotton from Guanyun County). Guanyun County sowed 250,000 mu to cotton in 1992, which figure is projected to be under 170,000 mu for 1993. So the overall picture is that Jiangsu Province's cotton production has slipped, with supply and demand conflicts becoming increasingly sharper.

## II. Several Problems That Are Likely To Appear Once Cotton Operations Are Deregulated

1. The cotton market has broken free from its former monopoly operation by supply and marketing cooperatives, turning a closed-type product distribution into open market operation. But the former operating forces are not suited to developing conditions, with a lack of ideological and legal preparations, and a shortage of systematic studies in diversified operating and settlement method theory. 1) Traditional practices, such as operating models and methods and pricing policy, lack flexibility and competitiveness, leaving deregulation but no vitality. 2) Self-restraint forces have not yet evolved. Textile mills act in their own interests, by depending on their former storage, equipment, and technological advantages and rich funding to monopolize markets or form trade-monopoly prices, blocking fair market competition. 3) As open cotton markets do not have sound laws and regulations, cotton and flax companies, ginning mills, and grassroots supply and marketing cooperatives all crowd into sales markets. In order to gain position, grassroots supply and marketing cooperatives also build new small cotton-ginning mills, practicing joint purchasing, processing, and sales operations, while county-level ginning mills also compete with supply and marketing cooperatives for purchases in villages. This brings duplicate construction, wasting manpower and financial resources, and creating disorderly market operations.

As new cotton operators have poor-quality business and marketing staffs, inadequate equipment and warehouse space, and unsound marketing and information systems, they often sail with the wind and go with the tide, practicing blind pricing policies and being subject to shortsighted and arbitrary operations.

When the cotton-spinning sector takes a direct part in purchasing raw materials on cotton markets, the following

conditions appear: 1) As cotton is hard to convert into finished or semi-finished products, it has a single use, with the supplying industry having no leeway in choice of target, and demand flexibility being relatively stable. Textile mills are apt to take advantage of these conditions to collaborate in forming buyer-industry monopoly prices. 2) As there is hardly any difference among market prices for grades or lengths of cotton-produced yarn, cotton oversupplies allow mills to often select only cotton of grades below three to five and fiber lengths under 27 mm, which leaves cotton of grades one to three and lengths from 29-31 mm stuck for long periods of time in the circulation link. This forces operators either to sell high quality at low prices, or to force down grades and prices when purchasing to cater to mill needs, which shifts the pressure onto the peasants. In times of short supply, mills are forced to submit and accept forcing up of grades and prices by operators to keep from "cutting their lifelines," which saps the importance of state-stipulated quality standards on markets.

2. Prices are affected by cotton production. Cotton cultivation by peasants becomes aimed completely at sales. Jiangsu Province's cotton commercialization rate is 100 percent. Cotton competes with grain and other agricultural crops for land, funds, and labor, while peasants' choices of variety and quantity of crops to cultivate depend mainly on the prices and returns of various crops. As cotton has been deregulated, while our market system is imperfect and information on factors such as supply and demand and production costs, is not good or even wrong altogether, market prices depend to a great extent on current supply and demand conditions. This easily causes too large and frequent fluctuations, making it hard for peasants to grasp production trends, creating a situation of alternative over- and under-production of cotton, and causing significant losses for the national economy. Our historical experience shows that large upward or downward fluctuations in cotton production take at least three years to be turned around.

### III. Recommendations on Improving Our Cotton Production, Purchasing, and Sales System

Cotton production and demand has its own particular features, in that demand is relatively stable, supply is more flexible and, as it is difficult to be certain of export volume, cotton-spinning industry production capacity plays a decisive role in cotton market demand, while market prices are the major factor in stimulating cotton production growth. In other words, as rational market prices are the prerequisite for stabilizing cotton production growth, how can market prices be suited to stable cotton production growth once cotton prices are deregulated?

1. We should set relatively stable minimum protective prices for cotton, which is a way to guide production and protect the interests of cotton farmers when cotton supply exceeds demand, and is based on the following factors: 1) Price relations, mainly those between grain and cotton. As cotton production-essentials prices have risen in recent years, the price relations between grain and cotton have widened, no longer being in the so-called normal ratio of

1:8. An analysis of the changes in the price ratios between grain and cotton and cotton-production growth since 1978 shows that when the price ratio between grain and cotton is between 1:9 and 1:10, cotton and grain production are both relatively stable, with cotton production growing steadily. In addition, as township enterprises have grown, and the economic efficiency of other rural industries has become clearly higher than that of farming, such changes in the rural production structure mean that when arranging price relations, it is necessary to consider not only the price ratio between grain and cotton, but also the relative economic efficiency of cotton production and other types of agriculture and industries. 2) Cotton production costs. Minimum protective prices for cotton must reflect value or production cost. So when calculating value, it is not only necessary to consider all past production costs for cotton, but also to project cotton production-essentials prices for future years. Only in this way can we ensure the relative stability of cotton markets.

2. We should set scientific and rational anticipated prices. Based on production features formed from cotton value, we should project pre-production overall supply and demand balances, including demand quantities in areas such as provincial use, export, shipping to other provinces, and storage. And based on actual conditions, we should set scientific and rational anticipated prices, and then promptly publicize them to peasants to help them understand the information on future market changes, which will play an effective regulatory role in production and consumption. This will be a key means of stabilizing the growth of cotton production and exercising macroeconomic regulation, control, and management of cotton markets.

3. We need to strictly examine and approve operators in areas such as cotton purchasing and processing. Strictly examining and approving cotton operators will mean examining their operating scopes, methods, and conditions. All that are unqualified should be banned. Enterprises that are found to be qualified through examination, whether state, collective, or individual, should be examined for pricing and cotton inspection-technology qualifications, with all those found lacking being allowed to operate only after undergoing training to become qualified.

4. We need to establish efficient and standardized markets. Once cotton markets are deregulated, market price flexibility and arbitrariness are likely to appear simultaneously which, if not restrained, will produce cyclical fluctuation and chaos. When prices are high, peasants will arbitrarily expand their cotton production and, when prices are low, they will arbitrarily cut it back, which will be disruptive to peasant interests and industrial and agricultural production. Thus we need to improve our market structure and system, by building a better market infrastructure, breaking with the "feudal economy" based on administrative divisions and regional blockades, setting up good cotton wholesale markets, and conducting wholesale and futures trading, which will play a role in regulating conflicts of time and

space, quantity, and bumper harvests or crop failures in the production and marketing process. And we need to establish a new market-economy order, by preventing too much competition and disruptive actions, abolishing in legal form old rules and regulations unsuited to market economy development, and establishing new laws and regulations to ensure fair competition, such as anti-monopoly laws, market transaction laws, and quality oversight laws.

5. And we need to set up a national and regional cotton reserve system. In order to curb production and market volatility, the state and localities must set up a cotton reserve system, so that when market prices are lower than minimum protective prices, governments can buy in at minimum protective prices to protect peasant interests. On the other hand, national and regional governments can sell at anticipated prices (or maximum constrained prices), in order to stabilize markets, production, and consumption.



### Policy on Students Studying Abroad Relaxed

93CM0282A Beijing GUANGMING RIBAO in Chinese  
20 Apr 93 p 5

[Article by A Niu (7093 3662): "To Return to China or Not?"]

[Excerpts] [passage omitted] At the end of 1992, or more precisely on 21 December 1992, the "State Education Commission's Working Conference on Selecting Students To Study Abroad in 1993" was held at Nankai University in Tianjin. [passage omitted]

The high-running emotions of the delegates to this conference were due to the news that the State Education Commission (SEC) was taking new steps to "support students studying abroad" (overseas Chinese students).

While it is not a minor or easy matter for such a large country as China to put forth a policy of "supporting overseas students," Comrade Li Tieying (SEC Minister in Charge) had still said in a speech at Jilin U on 23 August that "we are sending too few, not too many, students to study abroad, so that we must continue to send large numbers of students to study abroad in the 1990s." This shows that the announcement of these "new steps" was going to occur sooner or later anyhow.

At Nankai U's Oriental Arts Building, an official from the SEC's Overseas Student Office briefed the delegates on certain of the items involved in improving things for overseas students. Observers heard that: "From now on, the state plans to use a loan system for students sent to study abroad at public expense, which will replace administrative means of control with economic ones. Study abroad by students at their own expense will be further deregulated. High school graduates and college students who wish to study abroad at their own expense can apply to do so at any time, while graduate students who earned their degrees at public expense will be allowed to apply to study abroad at their own expense during their service periods."

This sparse "drizzle" slaked the thirst of those concerned. The following grand prospects have appeared for students who wish to study abroad at their own expense: After 1993, study abroad at one's own expense will become a broader channel for Chinese youth to study abroad, while self-pay students will become a great part of overseas Chinese students and a talent-trust for China's future.

In which case, how will things change comparatively for the students who have been sent to study abroad at state expense for so many years?

Each delegate held an SEC "Circular on Doing a Good Job of Planning the Selection of Students To Be Sent To Study Abroad in 1993." This "Circular" made its overseas-study selection principles "based on need, guaranteed quality, and consistency of study and application." And its selection method was to establish the students to be sent for study abroad based on national and local

needs, with rights devolved to localities. The selection targets were senior visiting scholars and ordinary visiting scholars, with overseas study periods being limited to six months or one year.

None of these included overseas students studying for degrees at public expense. Sources reveal that future Masters and Ph.D. degrees will be earned in China. Premised on ensuring academic-discipline needs, a few with Masters degrees will be sent abroad to earn Ph.D.s at state expense.

The students studying abroad at state expense, who have become a mighty "national team" since reform and opening, will continue to hold their decisive standing, while the "local team" of those sent to study abroad by work units will also remain the intermediate forces of all localities, departments, and work units. According to a briefing by a concerned party in the Chinese Academy of Sciences' (CAS) Education Office, "CAS sends 300 students a year to study abroad at public expense." If these are added to the numbers of those sent to study abroad at public expense by all provinces, municipalities, ministries, commissions, and institutions of higher learning, then we have a sizeable "talent figure."

In speaking of studying abroad for many years, and of that during the 15 years since reform and opening in particular, while there have been certain new and clear "versions," those both within and outside of China who have been allowed to and are studying abroad, as well as many figures in Chinese society, are still waiting, hoping that the new steps to "support overseas students" will be announced as soon as possible, or that an "Overseas Study Law" will be published in the near future.

The more sensitive issue of "returning to China to work" has been like a barometer of China's great reform tide. During these years, while this barometer has risen steadily and fallen sharply, the "great wave of returnees" that was predicted has never occurred, with overseas students quietly waiting abroad to see which way the tide turns.

In March 1992, when Comrade Deng Xiaoping's southern-tour speeches were transmitted to overseas students by the education agencies in all Chinese embassies and consulates, they had an extraordinarily shocking impact. And the publication in August 1992 of the "State Council Administrative Office Circular on Matters Pertaining to Students Studying Abroad" set off even more amazing shockwaves.

Some said that: "The domestic political stability, economic development, social stability, and public support of the overseas study policy means that the students studying abroad will naturally return home."

While this was true, a "repercussion and shockwave" effect also occurred everywhere throughout China, of which a meeting in Haikou following the Tianjin conference shows a peak.

On 26 December 1992, an SEC "Work Exchange Forum on Overseas Students From Some Coastal Provinces and Cities Returning to China" was held in Haikou's Qiongyuan Hotel. Haikou's pleasant winter temperature and humidity left the delegates in charge of overseas student work from the four provinces of Guangdong, Guangxi, Fujian, and Hainan and the two cities of Shenzhen and Zhuhai feeling quite comfortable about the meeting's atmosphere.

All delegates from all areas brought certain regulations on encouraging overseas students to return home to work that were published by local people's governments between March and September 1992, commonly referred to as "preferential policies." While all who saw these policies called them preferential, SEC Overseas Student Office Director He Jinqu [0149 2516 4428] (former Consul in San Francisco) still warned all that "it is not necessarily that the more preferential the policy the better, as the crucial matter is the need to suit local realities," which affirmed China's longstanding claim of "acting realistically."

Using local advantages to compete for overseas-student talent is acting realistically.

The City of Shenzhen, as China's forerunner of reform and opening, was the first to become aware of the principle of "not advancing means retreating," by setting forth the policy of "catching up to Singapore in two decades," meaning that it would be advancing side-by-side with Singapore in two decades. As the Shenzhen SEZ has an urgent need for talent to achieve this, its current mayor, Li Youwei [0632 2589 3634], led a recruitment group to the U.S. in May 1992.

And Guangdong Province, whose economic growth is "in the fast lane," organized recruitment tours of Britain and the U.S. in November 1992.

Meanwhile, Guangxi, whose "Guilin scenery is famous throughout the world," decided to invite by stages and in groups about 10 of Guangxi's overseas students a year to return to Guangxi to lecture, study, and observe. In August 1992, its first group of six overseas students returned to Guangxi from the U.S. and Canada.

The great Hainan SEZ, which has been a province for only four years, can be called "a large island with abundant resources." In 1992, Hainan's temperature rose again, making it once more a "hotspot," with its commitment to "become another Hong Kong" attracting much talent. After Vice Governor Xin Yejiang returned from an SEC recruitment tour of the U.S. in November 1992, he reported the overseas student demand for a sharp increase in the number of people entering Hainan. This is why he said at the Qiongyuan Hotel meeting that "in emphasizing personnel mobility, 'the peacocks flying southeast' is not a bad thing for the country, so that we welcome overseas students who want to come to Hainan." He has since consulted with officials in charge of the Hainan Overseas-Student-Return

Work Station on the independent organization of an overseas recruitment tour by Hainan for 1993.

The Hainan Overseas-Student-Return Work Station was set up on 8 September 1992. On 2 October, it hung out its shingle as the Hainan branch of the China Overseas Student Service Center. Prior to this, Guangzhou had set up a branch, and Shenzhen and Zhuhai had also set up corresponding agencies for service to returned overseas students. With this momentum, the Guangxi and Fujian delegates called at the meeting for the establishment of branches in Nanning and Fuzhou.

So the bridges have been built, the roads paved, and the boats readied.

What will be the results of this 1992 maneuvering? Will it bring a large-scale return home of overseas students in 1993?

While the China Overseas Student Service Center statistics show that the number of returned overseas students was up 30 percent in 1992, it is an undeniable fact that the U.S., Canada, and Australia are immigrant countries, with sources reporting that by the end of 1992, 15,000 overseas Chinese students in the U.S. and Canada had acquired "green cards."

An authoritative figure says that "there is little likelihood of attracting large numbers of overseas students back home to settle down in the short-run, as all such young people who have earned degrees have already settled into the societies of various other countries."

But another authoritative figure says that "it is predicted that the number of returnees will be up sharply soon, with prospects that they may reach upwards of 10,000."

The various projections show that 1993 will see a short-term tide of return home by overseas Chinese students.

Statistics up to 1992 show over 60,000 overseas students having returned home, but more than 120,000 still abroad.

Li Tieying said in his speech at Jilin U in August 1992 that "overseas students are China's valuable resource, which has been true in the past, and will remain so in the future."

The "State Council Administrative Office Circular on Matters Pertaining to Overseas Students" clearly provides that returned overseas students "can leave again at any time."

So China's doors are open. Returned overseas students can leave China as necessary to take part in international academic conferences and cooperative research, or go abroad for study again. And overseas students who are abroad can return home to work for the long-term, or come back for short stays to take part in academic conferences, cooperative research, lectures, and visits to

family and friends. This means that frequent entry to and exit from China will become a very common matter. [passage omitted]

**Professor on Overburdening Students With Homework**

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in Chinese 12 Apr 93 p 2

[Interview with Professor Lin Chongde (2651 1504 1795), chairman of the Beijing Teachers College Developmental Psychology Institute, by Li Yaoming (2621 2565 2494); place and date not given: "A Dialogue on the Overburdening of Grade and High School Students With Schoolwork"]

[Excerpt] [passage omitted] [Li Yaoming] The problem of grade and high school students being overburdened with schoolwork has aroused widespread attention among all social circles, with pressing calls for a fundamental solution all the way from senior policymakers to teachers, students, and parents. As a psychologist, what harm do you think this overburdening does to the physical and mental health of students?

[Lin Chongde] I have always favored students having responsibilities, but not being overburdened with them. A few years back, a certain grade school pupil wrote a character wrong, for which his teacher made him write it 500 times. By evening, when he had written it only 250 times, he could go no further, so his loving grandmother wrote it the last 250 times for him in a child's handwriting. The next day, his teacher told him "while you wrote it poorly at first, the more you practiced the better you got, showing that you concentrated out of fear of being further penalized." What is the sense of such mechanical and duplicate learning? It violates the laws of physical and mental development of children and teenagers, being adverse to their healthy physical and mental growth. Its harm is shown mainly in the following areas:

1. It is detrimental to the emotional, physical, and spiritual development of students.
2. It affects intelligence, particularly the development of creative ability.

3. Overburdening grade and high school students with schoolwork creates great pressure, often producing symptoms, such as anxiety, melancholy, and dread.

4. It is detrimental to the teaching of students in accordance with their aptitudes, curbing the development of their talents.

5. Too much schoolwork, too many books, too much class time, and too many tests, to the point where students have no time to pay attention to major matters of concern to the nation, makes a sizeable number of students lose interest in learning, dampens study initiative, saps learning will, and sends the weak-willed astray.

[Li Yaoming] While student fatigue is well known, I have also heard many parents and teachers complaining about exhaustion, with some saying that "children having too much homework tires parents too, hard homework tires the coaches too, too many exercises involve others, and hopes for children to become useful adults tire parents out." This is truly a complex "chain of rings," with one piled upon another.

[Lin Chongde] I have seen in a ninth grade Beijing high school class a student with reference works a foot thick, and with a year's worth of exercise books more than a foot deep. Leaving aside regular teaching and guidance to take the one item of correcting papers alone, with 50 students per class, how could teachers not be exhausted by simply reading a dozen-meter thick stack of assignment papers? Parents become even more fatigued, with children's schoolwork becoming parent's "assignments," and the common sight of study help, oversight, guidance, and substitute work bringing pity for the world's mothers and fathers!

[Li Yaoming] As the overburdening of students with schoolwork is such a longstanding problem, why has it not been solved despite so many attempts to do so? What is your view on this?

[Lin Chongde] This is an extremely complex matter, involving reform of teaching ideas, substance, and methods, which is very difficult, just like the matter of "the disparity of pay for physical and mental work," which is also not very easy to resolve. If emphasis is put on testing teachers, by evaluating and judging their school teaching work based on promotion rates, then it will be impossible to lighten student burdens. [passage omitted]



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